

**BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA  
COLUMBIA, SOUTH CAROLINA**

**HEARING #15-11488**

**JULY 21, 2015**

**10:35 A.M.**

**DOCKET NO. 2015-103-E:**

*SOUTH CAROLINA ELECTRIC & GAS COMPANY – Petition of South Carolina Electric & Gas Company for Updates and Revisions to the Capital Cost Schedule and Schedules Related to the Construction of a Nuclear Base Load Generation Facility at Jenkinsville, South Carolina*

**TRANSCRIPT OF TESTIMONY  
AND PROCEEDINGS**

**VOLUME 1 OF 3**

**HEARING BEFORE:** Nikiya M. 'Nikki' HALL, *Chairman*; Swain E. WHITFIELD, *Vice Chairman*; and COMMISSIONERS John E. 'Butch' HOWARD, Elliott F. ELAM, JR., Comer H. 'Randy' RANDALL, Elizabeth B. 'Lib' FLEMING, and G. O'Neal HAMILTON

ADVISOR TO COMMISSION: F. David Butler, Esq.  
Senior Counsel

**STAFF:** Joseph Melchers, General Counsel; James Spearman, Ph.D., Executive Assistant to Commissioners; David W. Stark, III, Esq., Legal Staff; Philip Riley, Doug Pratt, Lynn Ballentine, and Tom Ellison, Advisory Staff; Jo Elizabeth M. Wheat, CVR-CM/M-GNSC, Court Reporter; and William O. Richardson and Colanthia Alvarez, Hearing Room Assistants

**APPEARANCES:**

*K. CHAD BURGESS, ESQUIRE, MATTHEW W. GISSENDANNER, ESQUIRE, MITCHELL WILLOUGHBY, ESQUIRE, and BELTON T. ZEIGLER, ESQUIRE,*  
representing SOUTH CAROLINA ELECTRIC & GAS COMPANY,  
PETITIONER

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***PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA***

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**APPEARANCES (Cont'g) :**

***SCOTT ELLIOTT, ESQUIRE,*** representing SOUTH CAROLINA ENERGY USERS COMMITTEE, INTERVENOR

***ROBERT GUILD, ESQUIRE,*** representing SIERRA CLUB, INTERVENOR

***JEFFREY M. NELSON, ESQUIRE, and SHANNON BOWYER HUDSON, ESQUIRE,*** representing the SOUTH CAROLINA OFFICE OF REGULATORY STAFF

1            exercise efficiencies.

2            Madam Chair, members of the Commission, I look  
3            forward to an opportunity to examine the witnesses  
4            and to speak further on these matters, but I submit  
5            to you that, on the basis of the evidence of this  
6            case, you should reject the Application that's been  
7            submitted to you, for the reasons I've stated.  
8            Thank you.

9            **CHAIRMAN HALL:** Thank you, Mr. Guild.

10           Okay. Now, Mr. Burgess.

11           **MR. BURGESS:** SCE&G calls Kevin Marsh to the  
12           stand.

13           [Witness affirmed]

14           THEREUPON came,

15           **K E V I N   B .   M A R S H ,**  
16           called as a witness on behalf of the Petitioner, South  
17           Carolina Electric & Gas Company, who, having been first duly  
18           affirmed, was examined and testified as follows:

19           **DIRECT EXAMINATION**

20           **BY MR. BURGESS:**

21           **Q**     Mr. Marsh, would you please state your name for the  
22           record?

23           **A**     My name is Kevin Marsh.

24           **Q**     By whom are you employed and in what capacity?

25           **A**     I'm employed by SCANA Corporation. I'm the chief

1            executive officer.

2     **Q**     And did you prepare or cause to be prepared under your  
3            direct supervision 49 pages of direct testimony that's  
4            been prefiled in this docket?

5     **A**     I have.

6                     **CHAIRMAN HALL:** Mr. Burgess, could you pull  
7            that microphone closer? I don't think everybody  
8            can hear you.

9     **BY MR. BURGESS:**

10    **Q**     Mr. Marsh, were there any changes or corrections  
11            required of your testimony?

12    **A**     I have three small changes, and I'll be glad to  
13            highlight those.

14    **Q**     Would you please indicate the page number and line  
15            number for those corrections that are required?

16    **A**     The first one would be on page 17 at the bottom of the  
17            page. On line seven, there's a parenthetical there that  
18            starts "Approximately one-half of the Alternative  
19            Resources..." Right after the opening parenthetical  
20            should be inserted "In 2019-2021." So it should read  
21            "In 2019-2021 approximately one-half of the Alternative  
22            Resources..." on that line seven.

23            The next change is on page 25. On line three,  
24            after the word "does" the word "the" should be inserted  
25            between "does" and "company's." And on line four, the

1        word "stands" should be "stand"; eliminate the "s" from  
2        "stands."

3                The final change is on page 46, line nine. The  
4        words "as the" should be replaced with the word "for."  
5        So that line would read "schedules for BLRA purposes."

6                That would be all the changes I have.

7        **Q**        Mr. Marsh, subject to those edits in your prefiled  
8        direct testimony, if I asked you all the questions  
9        contained in your testimony, would your answers be the  
10       same?

11       **A**        Yes, they would.

12                **MR. BURGESS:** Madam Chairman, at this time, we  
13        would move into the record the prefiled direct  
14        testimony of Kevin Marsh as if given orally from  
15        the stand.

16                **CHAIRMAN HALL:** All right. Mr. Marsh's  
17        testimony will be entered into the record as if  
18        given orally.

19                        *[See pgs 52-100]*

20                **MR. BURGESS:** Thank you, Madam Chairman.

21        **BY MR. BURGESS:**

22        **Q**        Mr. Marsh, have you prepared a summary of your direct  
23        testimony?

24        **A**        Yes, I have.

25        **Q**        Would you please deliver that, at this time?

1     **A**     I will.

2                    Good morning, Madam Chairman and Commissioners.  
3     SCE&G comes before the Commission today to request  
4     approval of a revised construction milestone schedule  
5     and revised cash flow forecast for the two new nuclear  
6     units it is building in Jenkinsville, South Carolina.

7                    **CHAIRMAN HALL:** Excuse me, Mr. Marsh. I'm  
8                    sorry. Could you pull that microphone a little bit  
9                    closer? I think the people in the back are having  
10                   some trouble hearing.

11                   **WITNESS:** [Indicating.] Is that better?

12                   **CHAIRMAN HALL:** Do we have – okay, we're going  
13                   to switch the mics out.

14                   [Brief pause]

15                   **WITNESS:** Is that better?

16                   **CHAIRMAN HALL:** Okay. For the people in the  
17                   back, is that better?

18                   **VOICE:** He hasn't said anything.

19                   **WITNESS:** Is that better?

20                   **VOICE:** Yes.

21                   **CHAIRMAN HALL:** Okay.

22                   **VOICE:** Not much.

23                   **WITNESS:** Not much? It sounded like it was  
24                   better with this one [indicating]. Can you hear me  
25                   with this one at all?

1                    **VOICE:**    Yes.

2                    **CHAIRMAN HALL:**    Okay, that's good.

3                    **WITNESS:**    I'll start over.

4                    SCE&G comes before the Commission today to  
5                    request approval of a revised construction  
6                    milestone schedule and a revised cash flow forecast  
7                    for the two new nuclear units it is building in  
8                    Jenkinsville, South Carolina. This is the third  
9                    BLRA update proceeding since the Commission  
10                   initially approved the project in 2008. At that  
11                   time, SCE&G provided the Commission with a detailed  
12                   overview of the risks and challenges of building a  
13                   nuclear plant. We showed that the benefits to our  
14                   customers from new nuclear capacity far outweighed  
15                   the risk and challenges.

16                   We are currently approximately seven years  
17                   into the project, and the benefits from this  
18                   project still far outweigh the risk. Capital costs  
19                   have increased by approximately \$712 million, or  
20                   about 15 percent, since 2008. At the same time,  
21                   based on current schedules and forecasts,  
22                   escalation on the project has declined by \$214  
23                   million, the financing costs on the debt to  
24                   construct the units has declined by approximately  
25                   \$1.2 billion, and the projected benefit for federal

1            production tax credits, which we will pass directly  
2            to customers, has increased by approximately \$1.2  
3            billion. The impact of these savings can be  
4            expected to offset the impact to customers of the  
5            initial – excuse me – of the increase in capital  
6            costs since 2008.

7            In addition, the benefits to our customers  
8            from new nuclear capacity still far outweigh the  
9            risks. There is no other source of non-emitting,  
10           dispatchable base-load power that can replace the  
11           generation represented by the units. With both  
12           units in service, SCE&G will have reduced its  
13           carbon emissions by 54 percent, compared to 2005  
14           levels. At that time, 61 percent of SCE&G's  
15           generation will come from non-emitting sources,  
16           compared to 23 percent in 2014. The units will be  
17           an important part of SCE&G's plan to meet CO<sub>2</sub>  
18           emissions limitations that will be required under  
19           the EPA's proposed Clean Power Plan.

20           As Dr. Lynch testifies, even with today's low  
21           natural-gas prices, which I believe are not  
22           sustainable over the long run, completing the units  
23           remains the lowest-cost alternative for meeting  
24           customers' need for additional base-load generating  
25           capacity.



1                    Completing the units will give SCE&G a well-  
2                    balanced generation system with roughly equal  
3                    amounts of coal, gas, and nuclear capacity. If  
4                    SCE&G were to meet its base-load generation needs  
5                    by adding new natural gas generation, then fossil  
6                    fuels would account for approximately 75 percent of  
7                    SCE&G's generation in 2021, with gas alone  
8                    representing 48 percent of that generation. This  
9                    would be an unbalanced generation portfolio that  
10                   would also be overly subject to environmental and  
11                   price risks from fossil fuels.

12                   Concerning the financing of the units, as of  
13                   March 2015, SCE&G has successfully raised  
14                   approximately 46 percent of the capital needed for  
15                   the units, or \$3.1 billion. This includes \$1.5  
16                   billion in first mortgage bonds issued at an  
17                   average interest rate of only 4.99 percent.  
18                   Interest rates have been locked in on approximately  
19                   \$1.3 billion anticipated 2015-2016 borrowings at an  
20                   estimated effective rate of 5.09 percent. These  
21                   rates have been possible because the financial  
22                   community has become comfortable with the careful  
23                   and consistent approach the Commission and ORS have  
24                   used in applying the Base Load Review Act.

25                   We are now entering a critical period in

1            executing the financial plan. At the 36 months  
2            beginning with calendar year 2015, we will need to  
3            finance approximately \$2.8 billion of investment in  
4            the units. During this time, SCE&G will not have  
5            the option of waiting out unfavorable market  
6            conditions or postponing financing if markets have  
7            become skeptical of investing in the company due to  
8            unfavorable financial or regulatory results.  
9            During this period, it will be vitally important  
10           that SCE&G maintain access to capital markets on  
11           favorable terms.

12           The BLRA addresses the two principal concerns  
13           of the financial markets. One is the risk of  
14           regulatory disallowances for events outside the  
15           company's control. Write-downs resulting from  
16           disallowances have disproportionate impact on  
17           investors' risks and return calculations. Under  
18           the BLRA, disallowance is permitted only if changes  
19           in costs or scheduled forecasts are the result of  
20           imprudence by the utility. Markets are comfortable  
21           with that risk.

22           The second concern is the need for revenues to  
23           pay financing costs and support debt coverage and  
24           other measures of creditworthiness while the  
25           project is being built. The BLRA provides for

1            regular rate adjustments during construction to pay  
2            financing costs. This maintains SCE&G's  
3            creditworthiness while raising the necessary funds.

4            Nothing is more important to SCE&G's financial  
5            plan than maintaining market confidence and the  
6            continued application of the BLRA in a fair and  
7            consistent way. Loss of this confidence would put  
8            the financial plan for completing the units at  
9            risk. In this regard, markets see the settlement  
10           agreement we've entered into with ORS and the  
11           Energy Users as a positive example of how the  
12           regulatory process is working in a fair and  
13           rational way in South Carolina. As is always the  
14           case under the BLRA, revised rates are based on  
15           actual payments only, not projections or forecasts,  
16           or speculative costs. ORS carefully audits all  
17           amounts proposed for revised rates recovery. Only  
18           actual costs are included.

19           My senior management team and I are directly  
20           involved in the management and oversight of the new  
21           nuclear project. We deal with the issues that  
22           arise with Westinghouse aggressively and at the  
23           highest levels. If we stay the course with  
24           construction and with regulation, the units will  
25           provide reliable, non-emitting, base-load power to

our customers for 60 years or more.

It is my opinion, based on 38 years' experience in this industry, that the value of the new nuclear capacity under construction today remains much greater than any challenges we have encountered or are likely to encounter during construction of the project.

On behalf of SCE&G, I ask the Commission to approve the updated cost forecast and construction schedule for the units as presented here.

That concludes my summary.

[PURSUANT TO PREVIOUS INSTRUCTION, THE  
PREFILED DIRECT TESTIMONY {W/CORRECTIONS} OF  
KEVIN B. MARSH FOLLOWS AT PGS 52-100]

**DIRECT TESTIMONY**

**OF**

**KEVIN B. MARSH**

**ON BEHALF OF**

**SOUTH CAROLINA ELECTRIC & GAS COMPANY**

**DOCKET NO. 2015-103-E**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND  
POSITION.**

A. My name is Kevin Marsh and my business address is 220 Operation  
Way, Cayce, South Carolina. I am the Chairman and Chief Executive  
Officer of SCANA Corporation and South Carolina Electric & Gas  
Company ("SCE&G" or the "Company").

**Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND  
BUSINESS EXPERIENCE.**

A. I am a graduate, magna cum laude, of the University of Georgia,  
with a Bachelor of Business Administration degree with a major in  
accounting. Prior to joining SCE&G, I was employed by the public  
accounting firm of Deloitte, Haskins & Sells, now known as Deloitte &  
Touche, L.L.P. I joined SCE&G in 1984 and, since that time, have served  
as Controller, Vice President of Corporate Planning, Vice President of  
Finance, and Treasurer. From 1996 to 2006, I served as Senior Vice

1 President and Chief Financial Officer (“CFO”) of SCE&G and SCANA.  
2 From 2001-2003, while serving as CFO of SCE&G and SCANA, I also  
3 served as President and Chief Operating Officer of PSNC Energy in North  
4 Carolina. In May 2006, I was named President and Chief Operating Officer  
5 of SCE&G. In early 2011, I was elected President and Chief Operating  
6 Officer of SCANA and I became Chairman and Chief Executive Officer of  
7 SCANA on December 1, 2011.

8 **Q. HAVE YOU TESTIFIED BEFORE THIS COMMISSION BEFORE?**

9 A. Yes. I have testified in a number of different proceedings.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
11 **PROCEEDING?**

12 A. In the Petition (the “Petition”), the Company requests that the Public  
13 Service Commission of South Carolina (the “Commission”) approve an  
14 updated construction schedule and schedule of forecasted capital costs for  
15 the project to construct V.C. Summer Units 2 & 3 (the “Units”). My  
16 testimony explains the requests contained in the Petition and the value the  
17 Units represent to SCE&G’s customers, to its partner, Santee Cooper, and  
18 to the State of South Carolina. I discuss the importance of this proceeding  
19 to SCE&G’s plan for financing the Units and how this proceeding fits  
20 within the structure of the Base Load Review Act (“BLRA.”)

21 **Q. WHAT OTHER WITNESSES ARE PRESENTING DIRECT**  
22 **TESTIMONY ON BEHALF OF THE COMPANY?**

1 A. The other witnesses presenting direct testimony on behalf of the  
2 Company are Mr. Stephen A. Byrne, Mr. Ronald A. Jones, Ms. Carlette L.  
3 Walker and Dr. Joseph M. Lynch.

4 1. Mr. Byrne is the President for Generation and Transmission  
5 and Chief Operating Officer of SCE&G. His testimony reviews the current  
6 status of the construction of the Units and presents the updated construction  
7 schedule provided by the contractors, Westinghouse Electric Company,  
8 LLC (“WEC”) and Chicago Bridge & Iron (“CB&I”) (collectively  
9 “WEC/CB&I”). Mr. Byrne also testifies concerning the commercial issues  
10 with WEC/CB&I related to the project.

11 2. Mr. Jones is the Vice President for New Nuclear Operations  
12 for SCE&G. Mr. Jones will testify concerning change orders related to the  
13 project that SCE&G has agreed to with WEC/CB&I, changes in the  
14 Estimated at Completion (“EAC”) costs and changes in Owner’s cost  
15 arising from the new project schedule and other matters.

16 3. Ms. Walker is Vice President for Nuclear Finance  
17 Administration at SCANA. She sponsors the current cost schedule for the  
18 project and presents accounting, budgeting and forecasting information  
19 supporting the reasonableness and prudence of the adjustments in cost  
20 forecasts. Ms. Walker also testifies in further detail concerning key drivers  
21 of the changes in the Owner’s cost forecast.

1           4.     Dr. Lynch is Manager of Resource Planning at SCANA. He  
2     will testify concerning updated studies showing that even considering  
3     historically low natural gas prices, completing the Units remains the lowest  
4     cost option for meeting the generation needs of SCE&G's customers.

5           All Company witnesses testify in support of the reasonableness and  
6     prudence of the updated construction schedule and the costs it represents.  
7     From my knowledge of the project and my perspective as SCE&G's Chief  
8     Executive Officer, I can affirmatively testify that SCE&G is performing its  
9     role as project owner in a manner that is reasonable, prudent, cost-effective  
10    and responsible. The other witnesses are providing similar testimony about  
11    the project from their particular areas of expertise.

12   **Q.   PLEASE PROVIDE AN OVERVIEW OF THE REGULATORY**  
13   **HISTORY OF THE PROJECT.**

14   A.       In 2005, SCE&G began to evaluate alternatives to meet its  
15   customers' need for additional base load capacity in the coming decades.  
16   In this evaluation, the Company took account of its aging fleet of coal-fired  
17   units, the volatility in global fossil-fuel markets, and the increasingly  
18   stringent environmental regulations being imposed on fossil-fuel  
19   generation. In its evaluation, the Company sought proposals from three  
20   suppliers of nuclear generation units. The evaluation of all alternatives  
21   resulted in the Company signing an Engineering, Procurement, and  
22   Construction Agreement (the "EPC Contract") with what is now



1 WEC/CB&I on May 23, 2008, after two and one-half years of negotiations.  
2 On May 30, 2008, the Company filed a Combined Application under the  
3 BLRA seeking review by the Commission and ORS of the prudence of the  
4 project and the reasonableness of the EPC Contract. The cost schedule  
5 presented to the Commission in 2008 also included a reasonable forecast of  
6 owner's contingency for the project. SCE&G's share of the total anticipated  
7 cost was \$4.5 billion.<sup>1</sup> In December 2008, the Commission held nearly  
8 three weeks of hearings and took evidence from 22 expert witnesses about  
9 the project, the contractors, the EPC Contract and risks of construction.

10 **Q. WHAT WAS THE RESULT OF THOSE PROCEEDINGS?**

11 A. On March 2, 2009, the Commission issued Order No. 2009-104(A)  
12 approving the prudence of the project and the schedules presented by the  
13 Company. The South Carolina Supreme Court reviewed the Commission's  
14 determinations and ruled that "based on the overwhelming amount of  
15 evidence in the record, the Commission's determination that SCE&G  
16 considered all forms of viable energy generation, and concluded that  
17 nuclear energy was the least costly alternative source, is supported by  
18 substantial evidence." *Friends of Earth v. Pub. Serv. Comm'n*, 387 S.C.  
19 360, 369, 692 S.E.2d 910, 915 (2010). In a related case, *S.C. Energy Users*  
20 *Comm. v. S.C. Pub. Serv. Comm'n*, 388 S.C. 486, 697 S.E.2d 587 (2010),

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<sup>1</sup> Unless otherwise specified, all cost figures in this testimony are stated in 2007 dollars and reflect SCE&G's share of the cost of the Units.

1 the Court ruled that costs which were not identified and itemized to specific  
2 expense items—specifically, owner’s contingency costs—could not be  
3 included in the Commission-approved cost schedule for the Units. In  
4 denying contingencies, the Court recognized that the BLRA allows the  
5 Company to return to the Commission to seek approval of updates in cost  
6 and construction schedules as the Company is doing here.

7 **Q. PLEASE DESCRIBE THE COST AND SCHEDULE UPDATES**  
8 **SINCE ORDER NO. 2009-104(A) WAS ISSUED.**

9 A. Since 2009, SCE&G has appeared before the Commission three  
10 times to update the cost and construction schedules for the Units.

- 11 1. In 2009, the Commission updated the construction schedule to  
12 reflect a site-specific integrated construction schedule for the  
13 project which WEC/CB&I had recently completed. The 2009  
14 update changed the timing of cash flows for the project, but the  
15 total forecasted cost for the Units of \$4.5 billion did not change.
- 16 2. A 2010 update removed un-itemized owner’s contingency from  
17 the cost schedule in response to the decision in *S.C. Energy*  
18 *Users Comm. v. S.C. Pub. Serv. Comm’n, supra*. The Company  
19 also identified approximately \$174 million in costs that  
20 previously would have been covered by the owner’s contingency.  
21 The approved cost of the project dropped from \$4.5 to \$4.3  
22 billion.

1           3. In 2012, the Commission updated the capital cost forecasts and  
2           construction schedule. The cost forecasts were based on a  
3           settlement between SCE&G and WEC/CB&I for cost increases  
4           associated with:

- 5           a. The delay in the Combined Operating License (“COL”)  
6           issued by the Nuclear Regulatory Commission (the  
7           “NRC”);
- 8           b. WEC’s redesign of the AP1000 Shield Building;
- 9           c. The redesign by WEC/CB&I of certain structural modules  
10          to be used in the Units; and
- 11          d. The discovery of unanticipated rock conditions in the Unit  
12          2 Nuclear Island (“NI”) foundation area.

13           The Commission also updated the anticipated schedule of Owner’s  
14          cost to reflect more detailed operations and maintenance planning; new  
15          safety standards issued after the Fukushima event; and other matters. The  
16          2012 update also involved several specific EPC Contract change orders. It  
17          increased the anticipated cost for the Units from \$4.3 billion to \$4.5 billion.  
18          The Commission adopted these new schedules in Order No. 2012-884.  
19          South Carolina Supreme Court affirmed that order in *S.C. Energy Users*  
20          *Comm. v. S.C. Elec. & Gas*, 410 S.C. 348, 764 S.E. 2d 913 (2014).

21   **Q.   PLEASE PROVIDE AN OVERVIEW OF THIS PETITION.**

1 A. In this proceeding, SCE&G seeks approval of the revised milestone  
 2 schedule (the “Revised Milestone Schedule”) attached to Company Witness  
 3 Byrne’s direct testimony as Exhibit \_\_\_\_ (SAB-2). The updated schedule is  
 4 based on information recently provided to SCE&G by WEC/CB&I. It  
 5 shows new substantial completion dates for Units 2 and 3 of June 19, 2019,  
 6 and June 16, 2020, respectively (the “Substantial Completion Dates”).<sup>2</sup>

7 SCE&G has also submitted a revised cash flow forecast for the  
 8 project (the “Revised Cash Flow Forecast”). That schedule is attached to  
 9 Company Witness Walker’s direct testimony as Exhibit No. \_\_\_\_ (CLW-1).  
 10 It shows an updated cost forecast for the Units dollars of \$5.2 billion, which  
 11 is an increase of approximately \$698 million, or 15%, from the costs  
 12 approved in Order No. 2012-884.<sup>3</sup> Chart A, below, summarizes these  
 13 adjustments.

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<sup>2</sup> SCE&G has not, however, accepted WEC/CB&I’s contention that the new Substantial Completion Dates are made necessary by excusable delays. Nothing in this testimony should be taken as a waiver or abandonment of any claims SCE&G may have against WEC/CB&I. Explanations of the reasons for certain delay or cost increases should not be taken as an indication that SCE&G agrees that the associated delays or cost increases are excusable under the EPC Contract or that WEC/CB&I is not liable to SCE&G for the resulting costs and other potential damages.

<sup>3</sup> This \$698 million is net of approximately \$86 million in liquidated damages that SCE&G intends to seek from WEC/CB&I for the delays. While WEC/CB&I disputes this claim, SCE&G does not believe that WEC/CB&I’s counter position should be recognized in determining anticipated payments to complete the project.

<b>CHART A</b>				Delay	Non-Delay	Total
<b>SUMMARY OF COST ADJUSTMENTS</b>				Cost	Cost	Cost
<b>(millions of dollars)</b>						
<b>ESTIMATE AT COMPLETION (EAC) COST*</b>						
Associated with Delay				\$ 228.1		
Less: Liquidated Damages				\$ (85.5)		
Net Associated with Delay						\$ 142.6
Not Associated with Delay						
Other EAC Cost						
Productivity and Staffing Ratios					\$ 154.8	
WEC T&M Changes					\$ 27.4	
Total: Other EAC Costs					\$ 182.2	
Design Finalization					\$ 71.9	
Total Not Associated with Delay						\$ 254.1
<b>TOTAL EAC COST ADJUSTMENT</b>						\$ 396.7
<b>OTHER EPC ADJUSTMENTS</b>						
Ten Change Orders					\$ 56.5	
Less: Switchyard Reallocation					\$ (0.1)	
<b>TOTAL EPC COST ADJUSTMENT</b>						\$ 453.1
<b>OWNER'S COST</b>						
Associated with Delay				\$ 214.3		
Not Associated with Delay					\$ 30.8	
<b>TOTAL OWNER'S COST ADJUSTMENT</b>						\$ 245.1
<b>TOTAL ADJUSTMENT</b>				\$ 356.9	\$ 341.3	\$ 698.2
<b>TOTAL ADJUSTMENT</b>				\$ 442.4	\$ 341.3	\$ 783.8
(Without Liquidated Damages)						
Totals may vary due to rounding.						
* Delay and Other EAC Costs as reported in the Petition is \$411 million. It includes (a) EAC Costs						
Associated with Delay (\$228.1 million), and (b) Other EAC Cost (\$182.2 million).						

1

2 **Q. HOW DOES THE CURRENT ANTICIPATED COST OF THE**  
3 **PROJECT TO CUSTOMERS COMPARE TO THE ORIGINAL**  
4 **PROJECTIONS?**

5 A. While the base capital cost of the project has increased, several  
6 components of the ultimate cost of the project to customers are projected to  
7 offset this increase:

8 a. **Capital cost.** Capital costs are increasing by \$712 million in 2007  
9 dollars compared to the amount approved in Docket 2008-196-E. The  
10 \$712 million increase reference here is different than \$698 million  
11 increase referenced in the Petition but both are correct. The total cost  
12 approved in Order No. 2012-884 was more than that approved in Order  
13 No. 2009-104(A) by approximately \$14 million. As a result the increase  
14 in anticipated costs is approximately \$698 million when compared to  
15 Order No. 2012-884 and \$712 million when compared to Order No.  
16 2009-104(A).

17 b. **Escalation.** The forecasted cost of escalation on the project has declined  
18 by \$214 million compared to 2008. This is true even taking into account  
19 the increased cost of the project, and the effect of extending the project  
20 by two years.

1       c. **Financing.** Since 2008, SCE&G has been able to obtain low-cost  
2       borrowing for the project based on support from the BLRA, SCE&G's  
3       favorable bond ratings, and the low cost of financing available in debt  
4       markets. Compared to the projections presented in 2008, customers are  
5       anticipated to save approximately \$1.2 billion in interest costs (in future  
6       dollars) over the life of the debt that has been issued to date to finance  
7       the project and on future issuances where interest rates have been  
8       hedged.

9       d. **Production Tax Credits.** The 2005 Energy Policy Act provides a  
10      production tax credit to qualifying new nuclear units of 1.8 cents per  
11      kWh during the first eight years of operation. The credits are limited to  
12      6,000 MW of nuclear capacity built during a specified period with  
13      qualifying units sharing the credits pro rata. In 2008, SCE&G  
14      anticipated its total benefit would be \$1.06 billion gross of tax. Now it  
15      appears that there will be a smaller number of competing utilities so that  
16      SCE&G will receive a larger amount of credits. Assuming that the  
17      current completion dates can be maintained, SCE&G's forecasted  
18      benefit has increased by approximately \$1.2 billion in future dollars  
19      since 2008. SCE&G intends to pass all of the savings from the tax  
20      credits directly to its customers as fuel cost credits.

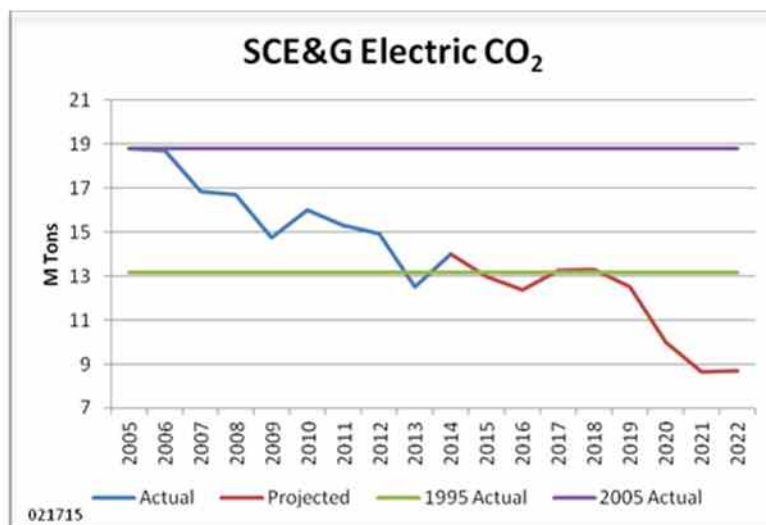
21             The impact of these savings will more than offset the impact to  
22      customers of the forecasted \$712 million increase in 2007 capital cost. For

1 that reason, the combined capital and related cost to customers today does  
2 not exceed the estimate provided to the Commission in 2008.

3 **Q. HOW HAS THE VALUE OF THE UNITS TO SCE&G'S SYSTEM**  
4 **CHANGED IN RECENT YEARS?**

5 A. When SCE&G and Santee Cooper made the decision to construct  
6 these Units, they did so to capture the value of adding 2,234 MW of  
7 efficient and non-emitting, base-load generation to their generation  
8 portfolios to serve the people of South Carolina. In large part because of the  
9 Units, SCE&G projects that by 2021 it will have reduced its carbon  
10 emissions by 54% compared to their 2005 levels, and 34% compared to  
11 1995 levels. Chart B shows the forecasted reduction in CO<sub>2</sub> emissions in  
12 millions of tons:

13 **Chart B**  
14 **SCE&G's Forecasted CO<sub>2</sub> Emissions**  
15





1           There have also been immediate environmental benefits from the  
2           Units. In 2008, the Company committed to evaluate whether building the  
3           Units might support retiring smaller coal units. The Company has followed  
4           through on this commitment. Since 2008, SCE&G put in place plans to  
5           retire 730 MW of smaller coal generating facilities. Canadys Units 1, 2 and  
6           3 have been taken out of service. Urquhart Unit 3 has been converted to gas  
7           generation only. For reliability purposes, SCE&G must maintain  
8           McMeekin Units 1 and 2 in service pending the completion of the new  
9           nuclear Units. But the current plan is to fuel the McMeekin units with  
10          natural gas after April 15, 2016. They may be taken out of service  
11          altogether when the Units come on line. SCE&G plans to bridge the gap  
12          between these retirements and the completion of the new nuclear Units  
13          through interim capacity purchases.

14   **Q.   HOW DOES THE ENVIRONMENTAL PROTECTION AGENCY’S**  
15   **(“EPA”) PROPOSED CLEAN POWER PLAN AFFECT THE**  
16   **VALUE OF THE UNITS?**

17   A.           EPA’s proposed Clean Power Plan was issued in June 2014. The  
18           accompanying Clean Power Plan regulations are not yet in final form. But  
19           they will require substantial cuts in CO<sub>2</sub> emissions from most state’s  
20           electric generation fleets. Planning for these reductions underscores the  
21           value and importance of nuclear generation.

22   **Q.   HOW DOES THE CLEAN POWER PLAN WORK?**

1 A. The Clean Power Plan is based on Section 111(d) of the Clean Air  
2 Act which governs existing generating units. In that plan, EPA has  
3 computed a target carbon intensity rate for each state's fleet of existing  
4 large power plants. That target carbon intensity rate is expressed in pounds  
5 of carbon per megawatt hour of electricity generated (lb/MWh). The Plan  
6 leaves it to the states to decide how to achieve mandated reductions and  
7 how to allocate those reductions among plant operators.

8 In computing the target for South Carolina, EPA treats the Units as  
9 existing units and assumes that they were operating at a 90% capacity  
10 factor in 2012. The plan then mandates reductions in carbon intensity rate  
11 from that artificially reduced baseline.

12 **Q. WHAT ARE THE SPECIFIC LIMITS BEING PROPOSED FOR**  
13 **SOUTH CAROLINA?**

14 A. EPA is proposing that South Carolina reduce its discharges from its  
15 actual 2012 carbon intensity of 1,587 lb/MWh to 772 lb/MWh, a 51%  
16 reduction. Compliance will be phased-in beginning in 2020. In its  
17 comments to EPA, SCE&G has proposed that the Units not be included in  
18 the 2012 baseline calculation. If that is done, South Carolina's carbon  
19 intensity target goes to 990 lb/MWh which would mean a reduction in  
20 carbon emissions of 38% compared to actual 2012 emissions.

21 **Q. HOW DOES THIS AFFECT THE VALUE OF THE UNITS TO**  
22 **SCE&G'S CUSTOMERS?**

1     A.           It is not clear how the proposed EPA regulations will change, or how  
2           the State will allocate the required reductions among affected power plant  
3           owners. However, for South Carolina to meet its targets efficiently, it will  
4           be critically important to complete the Units. There is no other source of  
5           non-emitting, dispatchable, base load power available to replace the  
6           generation represented by the Units. Generation sources that produce any  
7           air emissions are now under intense regulatory pressure. There is no reason  
8           to assume that this trend will not continue over the long term. Adding non-  
9           emitting nuclear generation has tremendous value in the current  
10          environmental context.

11   **Q.   WHAT ABOUT OTHER NON-EMITTING TECHNOLOGIES?**

12   A.           Solar and renewable resources and energy efficiency will play an  
13          increasingly important role in SCE&G's generation mix going forward.  
14          SCE&G was an active participant in the group that formulated and  
15          advocated the adoption of the South Carolina Distributed Energy Resources  
16          Act found in Act No. 236 of 2014. SCE&G is currently working to achieve  
17          the renewable resources goals established by the South Carolina General  
18          Assembly in that Act. The achievement of those goals is fully reflected in  
19          all of our capacity and generation forecasts. The same is true of the energy  
20          efficiency goals established in SCE&G Demand Side Management (DSM)  
21          program as approved by this Commission. However, with current

1 technologies, renewable resources and energy efficiency cannot displace  
2 the need for reliable, dispatchable base load generation.

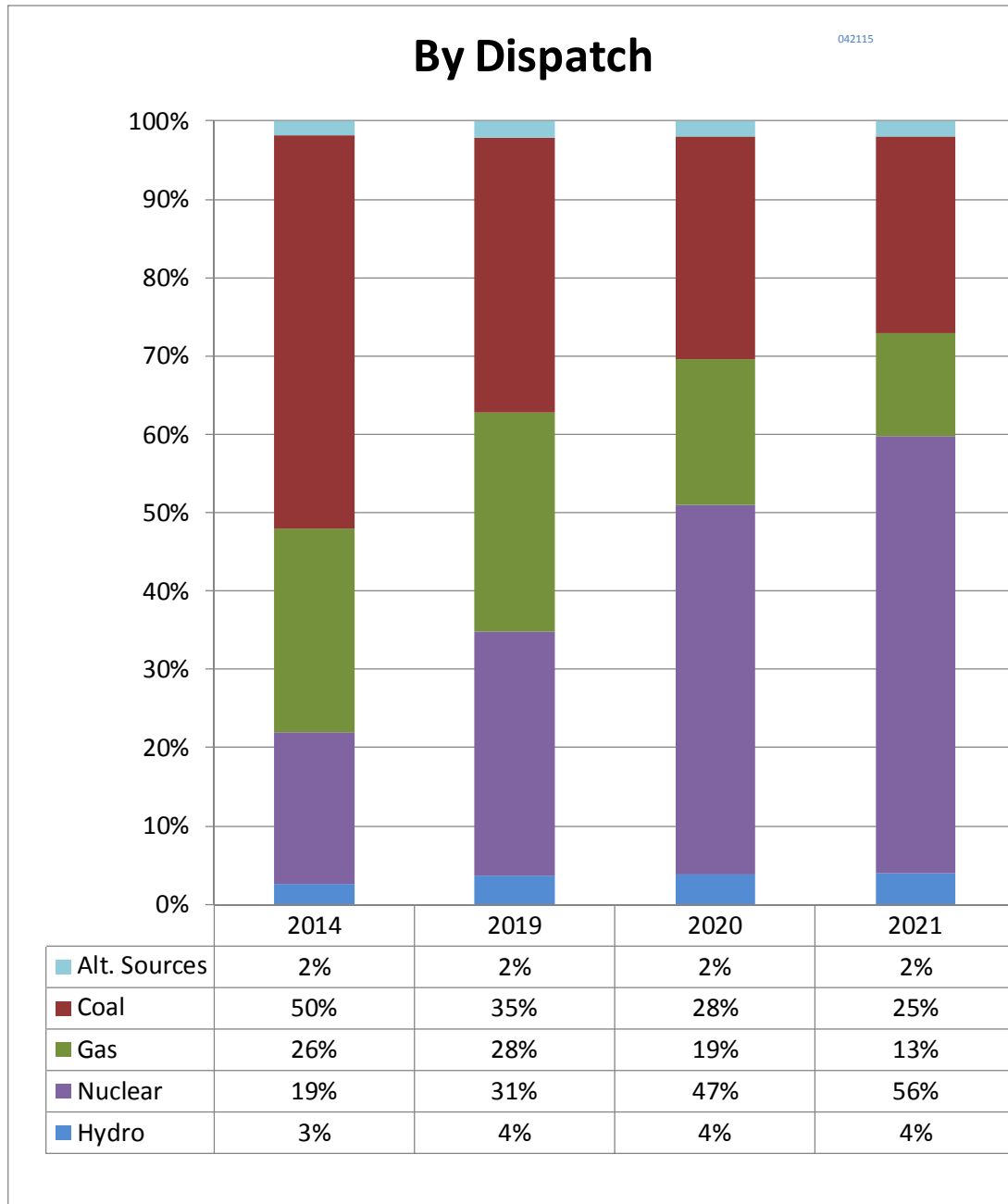
3 Because of EPA regulations limiting carbon discharges, it is  
4 extremely difficult to permit new coal generation. For that reason, the only  
5 dispatchable, base load alternative to nuclear generation today is combined-  
6 cycle natural gas generation. Natural gas generation involves lower levels  
7 of CO<sub>2</sub>, NO<sub>x</sub>, and SO<sub>x</sub> emissions than coal. However, natural gas  
8 generation does entail some emissions of CO<sub>2</sub> and the six criteria air  
9 pollutants. Nuclear generation remains the only base load resource that is  
10 entirely non-emitting with respect to these air pollutants.

11 **Q. WHAT IS SCE&G'S PLAN TO REDUCE ITS CO<sub>2</sub> EMISSIONS?**

12 A. As the Company's witnesses testified in 2008, one of SCE&G's  
13 long-term goals in choosing to use new nuclear generation was to create a  
14 system with a majority of its energy being supplied from non-emitting  
15 sources. Chart C on the following shows how that plan stands today.

16 [Chart C begins on the following page]

**Chart C**  
**SCE&G's Current and Forecasted Generation Mix**



In 2014, 23% of SCE&G generation of energy was from non-emitting facilities. (/ **In 2019-2021** approximately one-half of the Alternative Resources

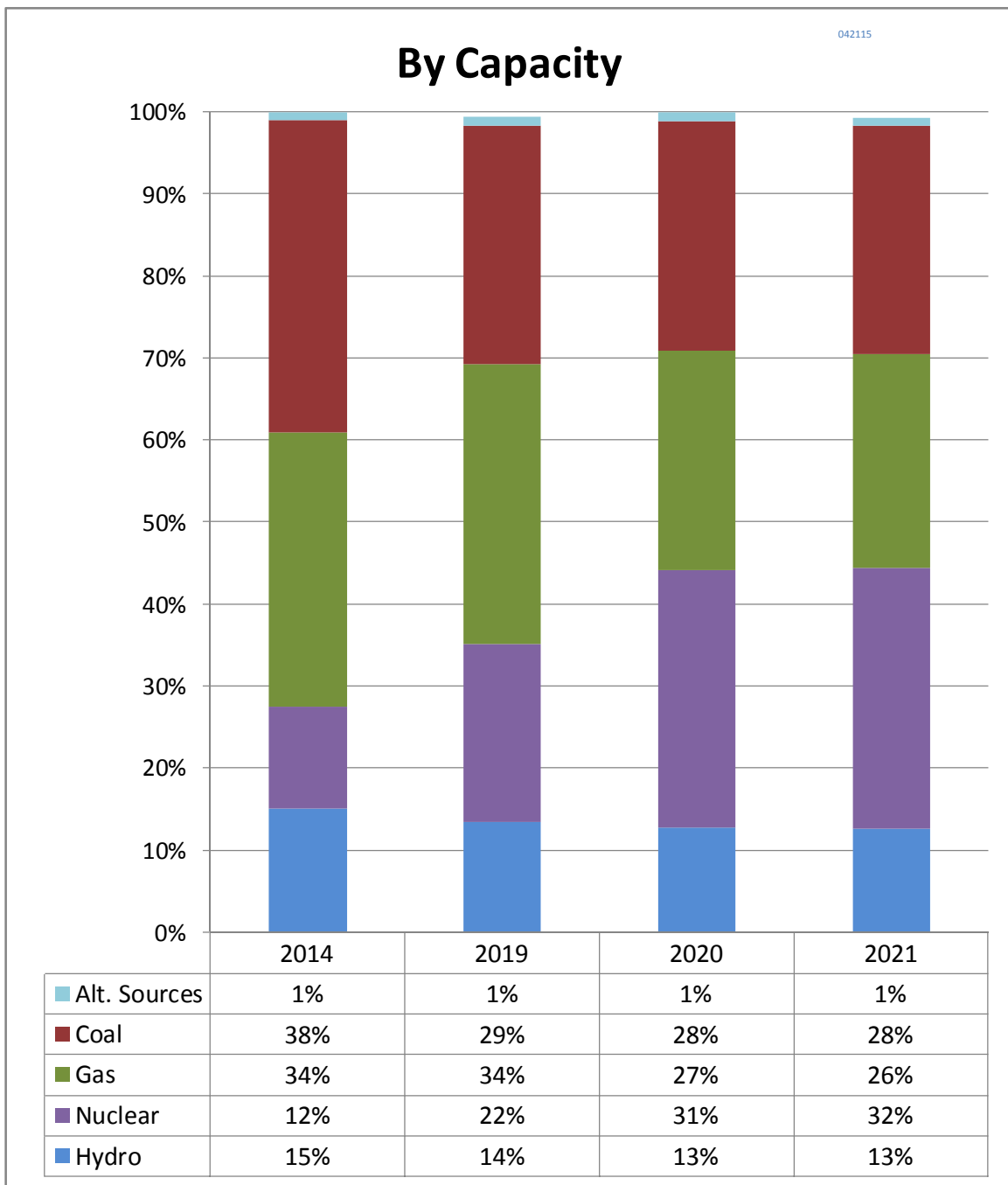
1 listed in Chart C are non-emitting. The remainder is biomass). In 2021,  
2 which is the first full year that both Units 2 and 3 will be on line, we  
3 estimate that 61% of the energy serving SCE&G's customers will come  
4 from non-emitting sources. SCE&G is on track to achieve its goal to create  
5 a generating system with markedly reduced levels of CO<sub>2</sub> emissions and  
6 reduced exposure to the risk and costs associated with them.

7 **Q. IN 2008, DIVERSIFICATION OF FUEL SOURCES WAS AN**  
8 **IMPORTANT GOAL FOR SCE&G. IS THAT TRUE TODAY?**

9 A. The Company testified in 2008 that diversification of fuel sources  
10 was an important reason why adding nuclear generation would provide  
11 value to SCE&G's customers. That continues to be the case today.

12 SCE&G's current capacity mix is weighted 72% towards fossil fuel,  
13 with coal representing 38% of that capacity, and natural gas representing  
14 34%. In large part because of the addition of nuclear generation, SCE&G  
15 will have a well-balanced generation system in 2021 with 28% of its  
16 capacity in coal units, 26% of its capacity in natural gas units, 32% of its  
17 capacity nuclear units and 14% of its capacity in hydro/biomass/solar  
18 facilities. In 2021, the three principal fuel sources, nuclear, coal and natural  
19 gas, will each represent a significant and balanced component of capacity.  
20 Chart D shows this capacity mix in a graphic form:

**Chart D**  
**SCE&G's Current and Forecasted Capacity Mix**



Creating this balanced mix of capacity will give SCE&G operating flexibility to respond to changing market conditions and environmental regulations. I am not aware of a cost effective way today to create this

flexibility other than by adding new nuclear capacity. This is particularly true now that for environmental reasons adding new coal capacity is no longer feasible. If SCE&G were to meet its 2020-2021 base load generation needs by adding new natural gas generation, then fossil fuels (natural gas, oil, and coal) would account for approximately 75% of SCE&G's generation in 2021, with gas alone representing 48% of its generation. Given the increasing environmental pressures on coal and the technological limitations on relying on renewables for base load capacity, under any reasonable scenario the system's reliance on natural gas is likely to go up steadily in the years following 2021. Without the new nuclear capacity represented by the Units, SCE&G's system would likely be locked into a significantly unbalanced generation portfolio with increasing reliance on natural gas generation today and in the decades to come.

On the other hand, adding nuclear capacity creates a balanced generation portfolio. As was the case in 2008, this continues to be an important reason that building these Units provides value to our customers.

**Q. DO CURRENT LOW NATURAL GAS PRICES CHANGE THE VALUE THAT THE UNITS WILL PROVIDE TO CUSTOMERS?**

A. Hydraulic fracturing, or "fracking," has reduced the cost and increased the supply of natural gas at this time and for some years in the future. However, predictions of future natural gas prices are notoriously unreliable over the long-term. The planning horizon for determining the



1 value of a nuclear unit is 60 years or more. Prices for fuels are historically  
2 volatile as natural gas will change over that time. The lesson of history is  
3 that fossil fuel prices will change dramatically and unexpectedly over that  
4 long a time. Therefore, prudent utility generation plans seek to create  
5 balanced systems that can respond as prices fluctuate over time and are not  
6 overly dependent on any one fuel source. As discussed above, that is what  
7 SCE&G's generation plan seeks to do.

8 In the case of natural gas supplies and fracking, there are efforts  
9 underway to limit fracking based on environmental concerns. But the issues  
10 go beyond fracking. The Sierra Club indicates on its current website that it  
11 is committed to "putting natural gas back in the dirty box with its fossil fuel  
12 brethren." In its "Beyond Natural Gas" campaign, the Sierra Club tells  
13 readers of its website that "[t]otal life-cycle emissions for coal and gas are  
14 nearly equivalent," and that "[t]he Sierra Club continues to legally  
15 challenge new natural gas plants and demand requirements that limit their  
16 emissions of greenhouse gases." According to the Sierra Club, "[n]atural  
17 gas is not part of a clean energy future."<sup>4</sup> It is only reasonable to assume  
18 that once coal plants are closed, restricting natural gas generation will  
19 become the principal focus of entities like the Sierra Club.

20 In addition, domestic United States natural gas prices are still out of  
21 line with global prices:

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<sup>4</sup> <http://content.sierraclub.org/naturalgas/protect-our-climate> (accessed May 20, 2015).

## CHART E

**Landed LNG Prices, April 2015**

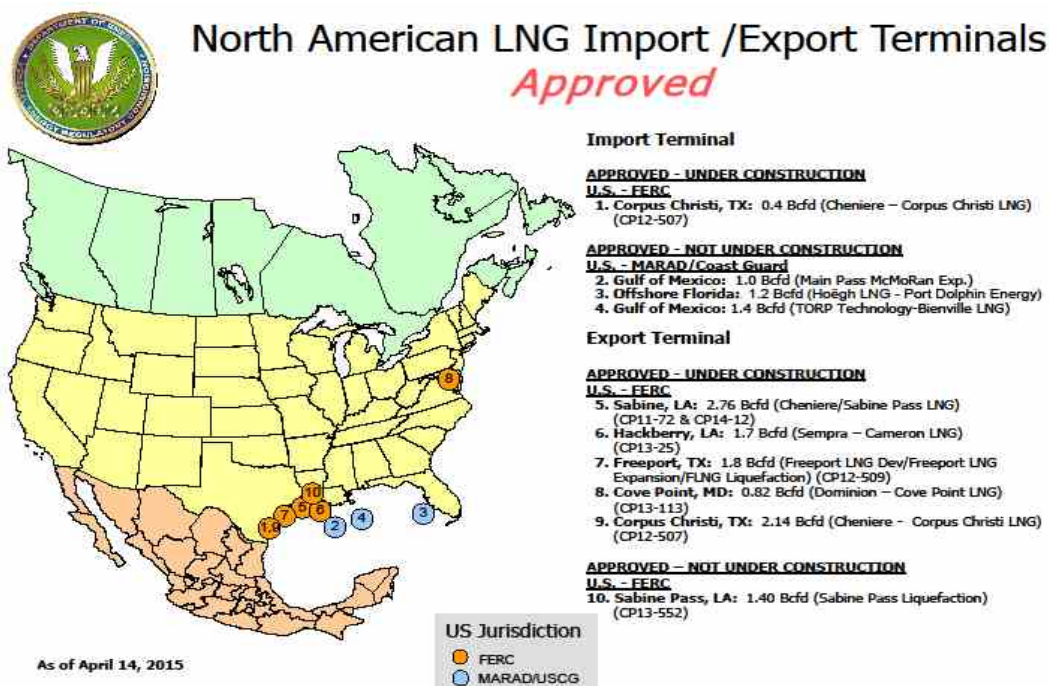
(\$US/MBTU)


<http://www.ferc.gov/market-oversight/mkt-gas/overview/ngas-ovr-lng-wld-pr-est.pdf>

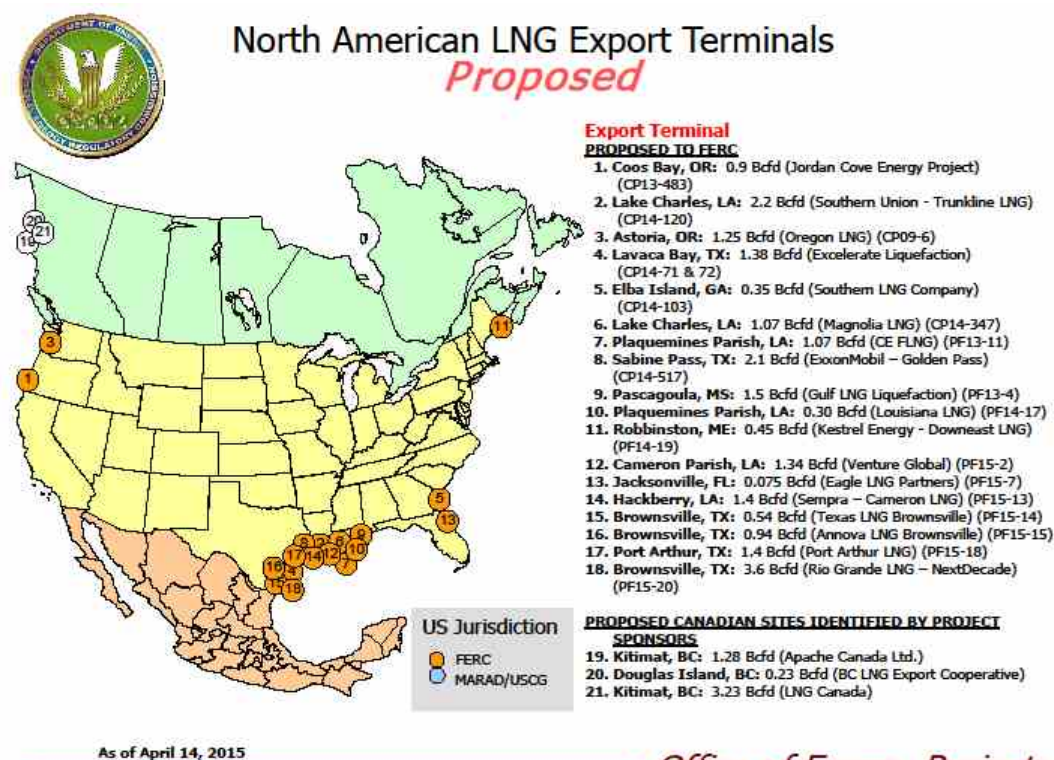
Updated: April 2015

How long the current price disparities can remain is difficult to determine. But there is every reason to expect that in the coming years U.S. natural gas prices may begin to respond to global markets and the global hunger for energy. Major energy companies are moving to expand their infrastructure to export natural gas produced in the United States as liquefied natural gas (“LNG”). A review of the reported 2015 data indicate that 24 new LNG export facilities have been approved or proposed to be permitted in the United States. Another 26 sites are listed as potential export sites in North America.

1

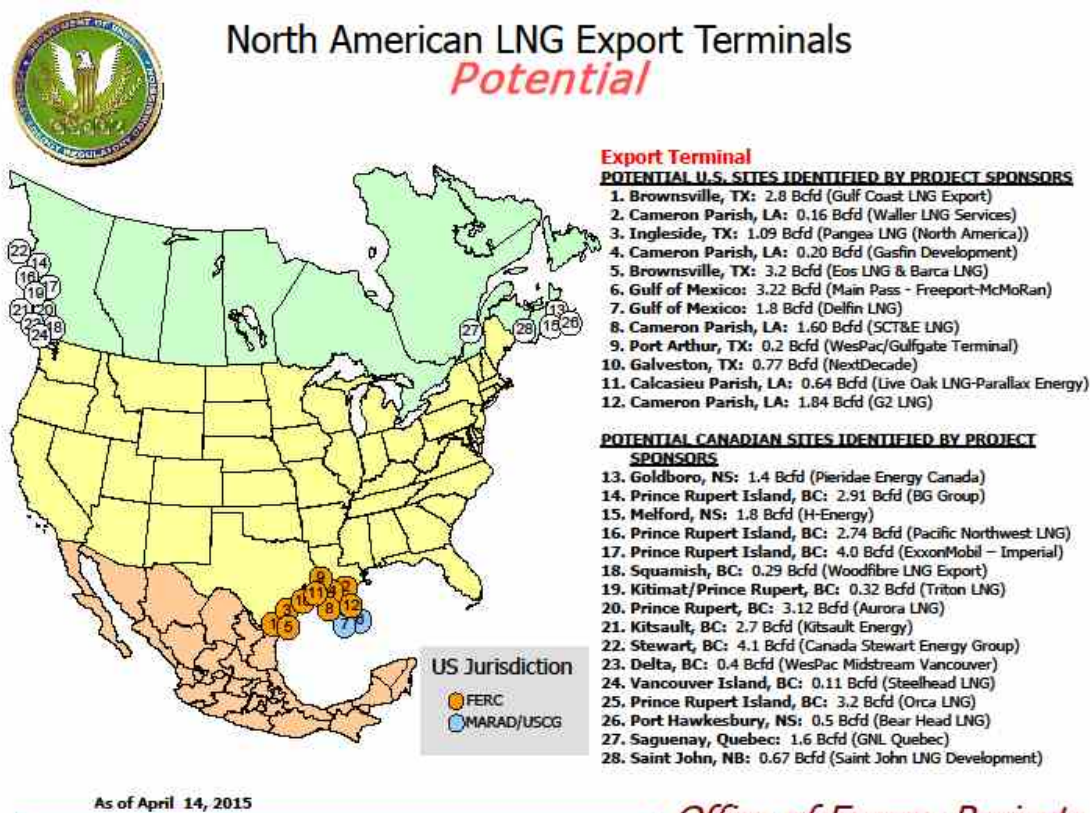
**CHART F**

2

*Office of Energy Projects*

3

*Office of Energy Projects*



Furthermore, there are questions about how to make sufficient pipeline capacity available to transport natural gas to consumers if the greater part of the nation's future energy needs will be supplied by natural gas indefinitely. A number of new pipelines are under construction or have been proposed such as the new Atlantic Coast Pipeline being constructed from West Virginia to North Carolina. Capacity in these pipelines will be significantly more expensive than existing pipeline capacity.

SCE&G continues to believe that over the long planning horizon that is involved when procuring base load generation units, the unbalanced reliance on any single fuel source is dangerous from both a cost and a reliability standpoint. Over the long-term, prices will change unpredictably.



1 I have testified to that fact before this Commission in past proceedings. It  
2 continues to be my firm belief.

THE

3 **Q. WHERE DOES /COMPANY'S FINANCIAL PLAN REGARDING**  
4 **THE UNITS PLAN STANDS TODAY?**

5 A. As of March 2015, SCE&G had successfully raised the capital  
6 necessary to support \$3.1 billion of the \$6.8 billion cost of the Units in  
7 future dollars (which is comparable to \$5.2 billion in 2007 dollars). This  
8 represents approximately 46% of the value of the Units when completed.  
9 SCE&G has supported this investment through issuance of debt in the form  
10 of first mortgage bonds of SCE&G and equity from SCE&G's retained  
11 earnings, and sales of common stock by SCANA and retained earnings of  
12 SCANA, the proceeds of which have been contributed to SCE&G. Where  
13 possible, SCE&G has locked in favorable interest rates for future  
14 borrowings. As of March 2015, interest rates on approximately \$1.3 billion  
15 in anticipated 2015-2016 borrowings have been locked in at an estimated  
16 effective rate of 5.09%.

17 **Q. HOW HAS THE FINANCIAL COMMUNITY RESPONDED TO**  
18 **SCE&G'S BORROWING TO SUPPORT THE UNITS?**

19 A. As evidenced by SCE&G's recent debt offerings, the financial  
20 community has been supportive of SCE&G's plan to finance the  
21 construction of these Units. The financial community is comfortable with  
22 the careful and consistent approach to applying the BLRA that has been

1 followed by the ORS and Commission since its adoption. Since 2009,  
2 SCE&G has issued approximately \$1.5 billion in first mortgage bonds  
3 through eight separate issues that are directly related to the nuclear project.  
4 The weighted average interest rate of these bonds is only 4.99%.

5 **Q. COULD YOU PROVIDE EXAMPLES OF SUCCESSFUL**  
6 **MARKETING OF BONDS IN RECENT YEARS?**

7 A. SCE&G's \$250 million bond issue in February 2011 was  
8 oversubscribed by a factor of eight and was ultimately priced at the lowest  
9 end of the indicated interest rate range. SCE&G's \$250 million bond issue  
10 in January 2012 was oversubscribed by a factor of six and, when issued,  
11 bore "one of the lowest 30-year coupons of all time," as reported at the time  
12 by Credit Suisse. Nevertheless, the next issue, which was SCE&G's \$250  
13 million issue in July 2012, bore a yield which "represent[ed] the lowest 30-  
14 year utility yield on record," as reported at that time by Well Fargo.  
15 SCE&G's \$300 million May 2014 bond issue represented the first 50-year  
16 bond issued in the utility and power sector and only the sixth such bond  
17 ever issued in the United States. It was oversubscribed by a factor of 13 and  
18 was issued at a rate estimated to be only 35 basis points higher than a 30-  
19 year bond would have borne.

20 **Q. HOW DID THE MARKET RESPOND TO SCE&G'S MOST**  
21 **RECENT BOND ISSUE?**

1 A. In May of this year, SCE&G issued \$500 million in 50-year first  
2 mortgage bonds. The interest rate was favorable at 5.1%. However, on the  
3 day of the issuance the subscriptions for this issue were slow in coming. At  
4 one point, it appeared that the entire \$500 million might not be sold. In the  
5 closing hours of the offering, it required a slight nudge upward in the  
6 interest rate to bring the book of potential buyers from \$400 million to the  
7 expected \$500 million. While the interest rate on the bonds was still very  
8 good, it was the first time in recent years that the issuance was not  
9 oversubscribed. In most other cases, the bonds were quickly  
10 oversubscribed.

11 **Q. DO YOU KNOW WHY THESE BONDS WERE MORE DIFFICULT**  
12 **TO SELL?**

13 A. We polled several investment banking firms involved in the  
14 transaction. They reported that an important factor for many potential  
15 buyers was their concern over regulatory risk related to the current filing.  
16 Bond buyers have options. If bond buyers have concerns about SCE&G's  
17 risk profile, it is often just as easy for them to buy bonds of companies that  
18 do not face such risks as to buy SCE&G's bonds.

19 **Q. WHAT IS YOUR CONCLUSION FROM THESE FACTS?**

20 A. The market is becoming increasingly sensitive to SCE&G's  
21 regulatory risk in the nuclear context. The 'overhang' of the current  
22 proceeding has brought that risk into focus for the market. We were able to

1 complete the transaction successfully and at a good interest rate, but what  
2 we learned is that the risk of losing market support for our financing plan is  
3 real. That could happen if the market loses confidence in the consistent  
4 application of the BLRA.

5 **Q. WHAT IS THE FINANCIAL PLAN FOR COMPLETING THE**  
6 **UNITS GOING FORWARD?**

7 A. In mid-2015, we are entering a critical time in the execution of our  
8 financial plan. We anticipate spending approximately \$940 million on the  
9 Units in 2015, approximately \$1 billion in 2016, and approximately \$900  
10 million in 2017. After that time, annual capital expenditures are anticipated  
11 to drop quickly. During this three year period, SCE&G will not have the  
12 option of waiting out unfavorable conditions in the capital markets or  
13 postponing issues during periods where it has achieved unfavorable  
14 financial or regulatory results as a company. During this time, it will be  
15 vitally important that SCE&G maintain access to capital markets on  
16 favorable terms. If SCE&G can maintain access on such terms, the  
17 Company may be able to continue to reduce debt costs and the costs to  
18 customers from financing the Units as compared to the 2008 projections.  
19 However, if access to capital markets on favorable terms is lost, the reverse  
20 is true. Financing costs will go up, and in some circumstances, it could  
21 prove impossible to finance the completion of the Units.



1     **Q.   WHAT ROLE DOES THIS PROCEEDING PLAY IN SCE&G**  
2     **EXECUTING ITS FINANCIAL PLAN?**

3     A.           Nothing is more important to SCE&G's financial plan than that we  
4           sustain the market's understanding that ORS and the Commission will  
5           continue to apply the BLRA in a fair and consistent way. The financial  
6           markets understand that the Commission and ORS may come under  
7           pressure to deviate from the terms of BLRA as challenges appear in the  
8           construction project. The decision here will provide the financial markets  
9           with an important signal concerning how the markets should expect that the  
10          BLRA will be applied over the remaining five years of the project. That  
11          will greatly impact how the financial community assesses the financial and  
12          regulatory risks of the project and the rates and terms on which SCE&G  
13          will be able to finance the approximately \$3.4 billion of debt and equity  
14          that remains to be raised.

15    **Q.   PLEASE EXPLAIN WHY YOU BELIEVE THAT THE BLRA IS SO**  
16    **IMPORTANT TO THE FINANCING PLAN FOR THE UNITS.**

17    A.           The BLRA was adopted to make it possible for electric utilities like  
18           SCE&G to consider building new nuclear units. Before the BLRA was  
19           adopted, building a new nuclear plant was not a viable option for SCE&G.  
20           For SCE&G to seriously consider adding new nuclear capacity, legislative  
21           action was needed to overcome two major challenges. These are the two  
22           challenges which the BLRA sought to address:

1           **The Financing Challenge.** Recovering the financing costs of a  
2 project during construction was the first challenge. During construction of a  
3 base load plant, a company must raise hundreds of millions of dollars of  
4 new capital each year to finance construction costs. Each time bonds are  
5 issued to pay for construction, debt service increases. Unless there is a  
6 corresponding increase in revenues, debt service coverage ratios decline as  
7 do other financial ratios. Bond ratings are based on these ratios. As these  
8 ratios decline, the creditworthiness of the company suffers. In time, bond  
9 ratings are downgraded. At that point, raising capital on favorable terms  
10 can be extremely difficult or potentially impossible. Capital to complete  
11 the plant may not be available.

12           On the equity side, each time additional common stock is issued to  
13 support construction, there are more shares outstanding. Additional  
14 dividends must be paid. Without new revenues, earnings are diluted. As  
15 earnings are diluted, the attractiveness of the stock and its value decline. To  
16 finance the next round of construction, a higher number of lower-priced  
17 shares must be issued to generate the same amount of capital. This causes  
18 yet more dilution and further weakens the value of the stock going into the  
19 next financing cycle.

20           The only solution is for the company to generate revenues sufficient  
21 to pay debt service, meet coverage ratios and provide reasonable levels of  
22 earnings per share as the new plant is built. Some years ago the

Commission recognized this fact and began to authorize utilities to include the financing costs of plants in rates before they were completed. This was done in general rate cases by recognizing the financing costs associated with construction work in progress (“CWIP”) as an expense for ratemaking purposes. The Commission has historically allowed a company to apply its weighted average cost of capital to its CWIP to determine the amount of revenue needed to support the common stock and bonds issued to finance construction. The weighted average cost of capital is the amount of revenue that the Commission has determined to be necessary to support investment of capital in the utility, specifically, to pay debt service on bonds and allow a reasonable level of earning to support common stock.

But this CWIP based approach required the utility to file general rate cases during plant construction. This produced rate adjustments that were stair stepped in one or two-year intervals. SCE&G successfully used this approach when building its last coal plant, Cope Station (1995), and its most recent combined cycle natural gas plant, Jasper Station (2004). During construction, there were a total of six separate rate adjustments which placed some part of the financial costs of the capital spent on those plants into rates.

Cope and Jasper, however, took three to five years to build, not twelve as is the case for nuclear. Outlays for those plants were in the hundreds of millions of dollars, not billions. If this approach were to be

1        used to support a nuclear construction project, it would require SCE&G to  
2        litigate full electric rate cases every year or two for approximately 12 years.  
3        Neither SCE&G nor its investors considered this to be practical.

4                **Disallowances.** The second challenge utilities like SCE&G faced in  
5        base load construction was the threat of construction cost disallowances.  
6        Investors are sensitive to very small changes in returns. Even ‘minor’  
7        construction cost disallowances can hit investor returns with crippling  
8        force. For example, it takes only a five percent disallowance of principal in  
9        a given year—\$50 million on a \$1 billion investment—to cut a ten percent  
10       return in half. Even a small disallowance today indicates the potential for  
11       future disallowances as construction progresses. Therefore, even small  
12       disallowances can drive investors away and make it impossible for a utility  
13       to complete a construction project due to lack of financing.

14               These financial realities are facts that opponents of nuclear power  
15        used to great effect in the last nuclear construction cycle. They underscore  
16        why SCE&G believes that even a small departure from the terms of the  
17        BLRA could cause the investment community to fundamentally change its  
18        assessment of SCE&G’s future regulatory risk.

19               **The BLRA.** In response, the South Carolina General Assembly  
20        adopted the BLRA. It allows for annual rate adjustments through revised  
21        rates filings to cover the financing costs of approved nuclear construction  
22        projects pending their completion. Financing costs are based on the same

1 weighted average cost of capital that applies under the CWIP method. As  
2 with the CWIP method, before a plant goes into service, only financing  
3 costs may be recovered under the BLRA, not the cost of the plant itself.  
4 The BLRA carries forward the key concepts of the CWIP method but does  
5 so without requiring full rate cases each year which would not be practical.

6 As to disallowances, the BLRA provides an opportunity for the  
7 Commission to review the prudence of constructing the plant in detail  
8 before construction begins. Once the prudence decision is made,  
9 disallowances are permitted if (a) the construction does not proceed within  
10 the originally approved cost and construction schedules and (b) schedule  
11 amendments such as the updates that are requested here are not made. As  
12 to the second point, the BLRA states that the Commission will grant  
13 requests for amendment as long as “the evidence of record justifies a  
14 finding that the changes are not the result of imprudence on the part of the  
15 utility.” S.C. Code Ann. § 58-33-270(E)(1).

16 Under the BLRA, prudence reviews are made based on plans and  
17 forecasts before construction begins. The Commission determines whether  
18 or not it is prudent to proceed with the project under the construction plan  
19 and with the contractors and EPC contract proposed by the Company. The  
20 initial plans and forecasts can then be updated so long as the updates are not  
21 the result of imprudence by the utility. This assures the financial  
22 community that disallowances based on after-the-fact prudence challenges

1 will not impair their ability to recover the capital they invest in the project  
 2 unless there is imprudence by the utility in administering the project.

3 **Q. WHAT DO YOU BELIEVE TO BE THE POLICY BEHIND**  
 4 **LIMITING THE PRUDENCY REVIEW IN UPDATE DOCKETS TO**  
 5 **THE PRUDENCY OF THE OWNER IN MANAGING THE**  
 6 **PROJECT?**

7 A. In considering disallowances, the BLRA properly focuses on the  
 8 utility as owner of the project and those cases where the utility has caused  
 9 additional cost to be incurred through imprudence in its role as owner.  
 10 More specifically, in this project, the Commission properly looks to  
 11 SCE&G as owner for prudence in

- 12 • construction oversight;
- 13 • obtaining licenses and permits for the Units including NRC
- 14 licenses, and complying with those licenses and permits;
- 15 • administering the EPC Contract and enforcing its terms;
- 16 • resolving disputes with the EPC contractors;
- 17 • constructing transmission facilities to support the Units;
- 18 • recruiting, hiring and training of operating staff for the Units;
- 19 • deploying information technology (“IT”) systems to support the
- 20 Units;

- drafting and obtaining approval of the operating, maintenance and safety plans for the Units; and
- performing all the tasks that fall under the heading of operational readiness for the Units.

The BLRA provisions as to cost and construction schedule updates properly focus on those aspects of the project that the Company can control, specifically its own prudence as owner in administering the EPC contract, overseeing the contractor's work and performing the work that is the owner's direct responsibility. Other risks related to construction are reviewed in the initial BLRA proceeding when the EPC contract, EPC contractor, and other aspects of the project are being approved. The decision to approve a project under the BLRA is a decision that it is reasonable and prudent to assume the risks of proceeding given the terms of the EPC contract, the review of the EPC contractor, and the other matters considered.

**Q. IS THIS POSITION CONSISTENT WITH THE COMMISSION'S PRIOR RULINGS UNDER THE BLRA?**

A. In the 2008 proceedings, the Commission and the parties reviewed the risk factors associated with this project and concluded that the project should proceed under the terms of the BLRA in spite of those risks. Based on its review of that information, the Commission ruled as follows:

The Commission's approval of the reasonableness and prudence of the Company's decision to proceed with construction of the Units rests on a thorough record and detailed investigation of the information known to the Company and the parties at this time. Once an order is issued, the Base Load Review Act provides that the Company may adjust the approved construction schedule and schedules of capital cost if circumstances require, so long as the adjustments are not necessitated by the imprudence of the Company. S.C. Code Ann. § 58-27-270(E). The statute does not allow the Commission to shift risks back to the Company. ... In addition, risk shifting could jeopardize investors' willingness to provide capital for the project on reasonable terms which, in turn, could result in higher costs to customers.

Order No. 2009-104(A), p. 92. On appeal, the South Carolina Supreme Court described that order as “a very thorough and reasoned order.” *Friends of Earth v. Pub. Serv. Comm'n of S. Carolina*, 387 S.C. 360, 372, 692 S.E.2d 910, 916 (2010). The court stated that “the Commission addressed each and every concern Appellant presented . . . .” *Id.*

**Q. WHAT INFORMATION ABOUT RISKS DID SCE&G PLACE BEFORE THE COMMISSION IN 2008?**

A. When SCE&G filed for BLRA approval in 2008, it placed before the Commission an extensive assessment of the risks and uncertainties of this project. SCE&G also placed before the Commission its choice of EPC contractors, its plan for construction of the Units, and the terms of the EPC Contract under which subcontractors would be selected and the Units would be constructed. SCE&G explained:

SCE&G has reviewed the risks related to constructing the Units carefully and over an extended period of time. It has compared those risks to the risks of the other alternatives that are available to meet



1 the energy needs of its customers and the State of South Carolina. . .  
2 . SCE&G has concluded that constructing the Units is the most  
3 prudent and responsible course it can take at this time to meet the  
4 base-load generation needs of its Customers. . . .

5  
6 ...In the end, this project's ability to meet its current schedule and  
7 cost projections will depend on the cumulative effect of those risk  
8 events that do occur on the schedule and cost projections contained  
9 in this Application.

10  
11 Petition, Docket No. 2008-196-E, Exhibit J, p. 12.

12 SCE&G's 2008 BLRA application acknowledged that, "[f]or a  
13 project of the scope and complexity of the licensing and constructing of the  
14 Units, any list of potential risk factors compiled at this stage of the process  
15 will not be exhaustive." Petition, Docket No. 2008-196-E, Exhibit J, p. 12.  
16 With that caveat, SCE&G listed the specific risks that seemed most  
17 important at the time. Among the risks specifically enumerated at that time  
18 were many, if not all, of the risks that have resulted in the current update  
19 filing:

- 20 • Module production: "It is possible that manufacturers of unique  
21 components (e.g., steam generators and pump assemblies or other  
22 large components or modules used in the Units) and  
23 manufacturers of other sensitive components may encounter  
24 problems with their manufacturing processes or in meeting  
25 quality control standards. . . . Any difficulties that these foundries  
26 or other facilities encounter in meeting fabrication schedules or

1           quality standards may cause schedule or price issues for the  
2           Units.”

- 3           • Construction Efficiencies: “The project schedule and costs are  
4           based on efficiencies and economies anticipated from the use of  
5           [standardized designed and advanced modular construction  
6           processes]. . . . However, standardized design and advanced  
7           modular construction has not been used to build a nuclear facility  
8           in the United States to date. The construction process and  
9           schedule is subject to the risk that the benefits from standardized  
10          design and advanced modular construction may not prove as  
11          great as anticipated.”
- 12          • Rework: “[N]o AP1000 units have yet been built. Accordingly,  
13          problems may arise during construction that are not anticipated at  
14          this time. These problems may require repairs and rework to be  
15          corrected. Repairs and rework pose schedule and cost risks  
16          resulting both from the repairs and the rework itself, and from the  
17          time and expense required to diagnose the cause of the problem,  
18          and to plan, review and approve the work plan before  
19          implementation.”
- 20          • Scope Changes: “[S]cope increases can result from changes in  
21          regulation, design changes, changes in the design and  
22          characteristics of components of equipment, and other similar

factors. . . . Scope changes represent an important category of risk to which the project is susceptible.”

- Design Finalization: “[T]here is engineering work related to the Units that will not be completed until after the COL [Combined Operating License] is issued. Any engineering or design changes that arise out of that work . . . could impact cost schedules or construction schedules for the Units.”

See Combined Application, Docket No. 2008-196-E, Exhibit J, p. 6-12.

In light of these risks, SCE&G expressly acknowledged in 2008 that cost and schedule updates might be required. The Commission agreed that under the BLRA these updates would be allowed so long as they were not due to the imprudence of the utility.

**Q. WHAT DO THE OUTSTANDING COMMISSION ORDERS SAY ABOUT THE EPC CONTRACT?**

A. In Order No. 2009-104(A), the Commission ruled that “[a] key component of the prudency review envisioned by the Base Load Review Act is a review of the reasonableness and prudence of the contract under which the new units will be built.” Order No. 2009-104(A) at p. 70. The Commission pointed out that in the 2008 proceedings “[a] number of intervenors have raised questions concerning the degree of price certainty provided by the EPC Contract.” *Id.* at p. 73. However, the Commission noted that this issue has been addressed in the testimony of the Company’s

1 witnesses who “testified that in the EPC Contract the Company sought to  
2 obtain the greatest degree of price assurance possible, with due  
3 consideration to the cost that [WEC/CB&I] would charge for accepting  
4 additional price risk.” *Id.* The Commission concluded that “the EPC  
5 Contract contains reasonable and prudent pricing provisions, as well as  
6 reasonable assurances of price certainty for a project of this scope.” *Id.* at  
7 74.

8 Mr. Byrne and I were involved in the negotiation of the EPC  
9 contract, which took over two years after WEC/CB&I was selected as the  
10 preferred vendor. During those negotiations, we gave serious consideration  
11 to obtaining fixed or firm pricing for Craft Labor, Non-Labor Costs and  
12 some or all of the potential scopes of work falling in the Time & Materials  
13 (“T&M”) categories. The EAC cost adjustments presented for review in  
14 this proceeding, apart from change orders, are all found in these categories.

15 As indicated in Order No.2009-104(A), we determined that the price  
16 SCE&G and SCE&G customers would have paid for price certainty for  
17 these items was prohibitive. In 2008, we did negotiate fixed or firm pricing  
18 for more than 50% of the EPC Contract. Since that time, we have extended  
19 price assurance to approximately two-thirds of the contract through  
20 subsequent negotiations with WEC/CB&I. Our conclusion in 2008 was that  
21 the premium to fix the prices for the remaining EPC cost categories was too

1 high. The Commission expressly approved that decision as reasonable and  
2 prudent in Order No. 2009-104(A).

3 In spite of the increased costs we are considering today, the decision  
4 to forego price certainty in 2008 was the correct decision. I have  
5 participated in the EPC Contract negotiations and can affirm that the cost  
6 increases we are facing today do not exceed the cost that would have been  
7 paid for additional fixed price assurances under the EPC Contract.

8 **Q. SHOULD THE COMPANY POSTPONE UPDATES TO THE**  
9 **SCHEDULES UNTIL ISSUES RELATED TO SCHEDULE AND**  
10 **COST DISPUTES WITH THE CONTRACTORS ARE RESOLVED?**

11 A. No. It would not be prudent for the Company to defer updating its  
12 cost and construction schedules until a later time:

13 1. We do not know when a more appropriate time would be. While we  
14 would hope that our disputes with the contractors can be resolved by  
15 negotiations, there is no timetable for those negotiations. If litigation  
16 is required, the court proceedings in a matter this complex could last  
17 five years or more. The final resolution might come well after the  
18 project was completed.

19 2. The most important years for financing the Units will be 2015-2017.  
20 Delaying a decision on these costs will inject significant uncertainty  
21 in the financing plan at the exact wrong time.

- 1           3.     If SCE&G foregoes adjusting its cost and construction schedules, it  
2                 foregoes including these costs in revised rates filings. Without  
3                 revised rates, SCE&G loses revenue that is required to support the  
4                 debt the Company plans to issue in the coming years and to support  
5                 common stock. Our financial plan for completing these Units is  
6                 based on regular, annual revised rates filings. Without the revenue  
7                 from revised rates, our debt service ratios, and other financial ratios  
8                 begin to erode immediately resulting in a financial plan that rapidly  
9                 becomes unworkable.
- 10          4.     The financial community expects us to update our schedules and  
11                 proceed with revised rates as we have every year since 2009. If we  
12                 are not able to proceed consistently with past practice and current  
13                 expectations, the financial community will swiftly reassess its  
14                 support for this project and the confidence it has in the Company's  
15                 financial plan. This is the most important point of all. The  
16                 consequences of the Company not proceeding with updates and  
17                 revised rates filings as the BLRA envisions could result in an  
18                 immediate withdrawal of financial support for this project.
- 19          5.     Not to proceed with this filing would also be contrary to our long-  
20                 standing commitment to this Commission and the public to come  
21                 forward publically for approval of changes in our cost and  
22                 construction schedules as we identify them.

1 Without approval of the cost and construction schedules proposed here, the  
2 Company's ability to finance the completion of the Units on reasonable  
3 financial terms may be placed in great jeopardy.

4 **Q. IF THESE DISPUTES ARE UNRESOLVED, HOW CAN COST AND**  
5 **CONSTRUCTION SCHEDULE UPDATES BE APPROVED?**

6 A. The cost and construction schedules presented for approval here are  
7 no different from those approved in 2008 and in each update docket  
8 thereafter. In each case, the Company came before the Commission with  
9 the best information available concerning the anticipated construction  
10 schedule for completing the Units and the anticipated costs associated with  
11 that schedule. In every case, both the cost and the construction schedules  
12 presented and approved have been anticipated schedules for completing the  
13 Units. As anticipated schedules they are subject to risks, uncertainties,  
14 potential changes and possible revisions. That is true of the cost schedule  
15 here just as it has been true of all cost schedules the Commission has  
16 approved to date.

17 The current schedules reflect the best information available about the  
18 anticipated costs and construction timetables for completing the project.  
19 The anticipated capital costs presented here are not speculative. As Mr.  
20 Byrne testifies, they are based on a careful review of construction plans and  
21 the costs of the tasks required to complete them. No speculative or un-  
22 itemized costs are included in this cost schedule. There is no question that

1       these costs on this schedule will be paid. The only question is whether  
2       SCE&G can recover some of these costs from WEC/CB&I. It is appropriate  
3       that this cost schedule be approved under the BLRA as the updated  
4       schedule for the project.

5       **Q.     SHOULD WE WAIT FOR CHANGE ORDERS?**

6       A.           No. A change order is not needed to properly consider these updates.  
7       The Construction Labor, and Non-Labor Costs, which constitute the Target  
8       Cost categories under the EPC Contract, are not fixed or firm. T&M costs  
9       are also not fixed or firm. Change orders to the EPC Contract are not  
10      required for WEC/CB&I to bill SCE&G for amounts above the target or  
11      estimated levels.

12      **Q.     HOW WILL REGULATORS ENSURE THAT IMPROPER**  
13      **CHARGES ARE NOT INCLUDED IN REVISED RATES?**

14      A.           As is always the case under the BLRA, revised rates are based on  
15      actual payments only, not projections. They never reflect costs that have  
16      not been paid. In all cases when SCE&G files for revised rates, the  
17      Company presents ORS with the actual invoices and other cost data  
18      establishing the project costs that have been paid to date and information  
19      justifying those costs. ORS has full audit authority over this data. ORS  
20      carefully audits all amounts SCE&G seeks to include in revised rates  
21      recovery.



1 SCE&G has no interest in including any improper amounts in  
2 revised rates recovery. If anything improper is found in these amounts  
3 through ORS's audits or otherwise, we will thank the party that points that  
4 out and remove those amounts from revised rates filings immediately. If  
5 those amounts were improperly invoiced to us by WEC/CB&I, we will take  
6 appropriate action with WEC/CB&I to have their invoices corrected and  
7 proper credits applied.

8 **Q. HAS SCE&G APPROVED THESE UPDATED SCHEDULES?**

9 A. SCE&G has "approved" the updated schedules in the sense that it  
10 recognizes them to be the most accurate and dependable statements  
11 available of the anticipated construction schedule for completing the Units  
12 and the anticipated schedule of capital costs for completing the Units. As a  
13 practical matter, these schedules are in fact the schedules under which work  
14 on the project is proceeding. Insofar as they reflect data from WEC/CB&I,  
15 that data has been endorsed by WEC/CB&I as contractor under the EPC  
16 Contract. SCE&G has carefully reviewed the data provided by WEC/CB&I  
17 and verified its reasonableness. SCE&G has also provided certain data of  
18 its own that is included in the cost schedule, specifically data as to Owner's  
19 cost and payments it intends to withhold from WEC/CB&I. SCE&G stands  
20 behind its data completely.

21 For these reasons, SCE&G has determined that the anticipated cost  
22 schedule presented by Ms. Walker (Exhibit No. \_\_\_\_ (CLW-1)) and the

1 anticipated construction schedule presented by Mr. Byrne (Exhibit No. \_\_  
2 (SAB-2)) are reasonable and prudent basis on which the Commission may  
3 update the approved BLRA schedules for this project. The schedules  
4 presented here in every way meet the definition of the anticipated  
5 construction schedule and the anticipated capital cost schedule for the  
6 project. They are appropriate schedules for the Company to bring forward  
7 to the Commission for review and approval under BLRA. In that regard  
8 SCE&G has approved these schedules for filing as updated project  
9 schedules ~~as the~~ <sup>for</sup> BLRA purposes.

10 However, for purposes of the EPC Contract, we are concerned that  
11 WEC/CB&I may seek to take the term “approved” as applied to these  
12 schedules to mean that SCE&G has approved substituting these schedules  
13 for the schedules previously approved in the EPC Contract, thereby  
14 excusing WEC/CB&I from contractual obligations, penalties, claims and  
15 possible damages from failing to meet those schedules. SCE&G has not  
16 approved those schedules in that sense whatsoever. In its role as Owner of  
17 the project, SCE&G intends to maintain all claims and exert all possible  
18 leverage over WEC/CB&I related to its obligations under the EPC  
19 Contract.

20 **Q. WHAT IS YOUR CONCLUSION AS TO THE VALUE THAT NEW**  
21 **NUCLEAR GENERATION BRINGS TO YOUR CUSTOMERS AND**  
22 **TO THE STATE OF SOUTH CAROLINA?**

1       A.           SCE&G continues to pursue the generation plan that it presented to  
2       this Commission in 2008. That strategy remains fundamentally sound.  
3       When SCE&G came before the Commission in 2008, we presented a  
4       detailed overview of the risks and challenges of building a nuclear plant.  
5       We showed then that the benefits to our customers from new nuclear  
6       capacity far outweighed these risks and challenges.

7               We are now seven years into a twelve year construction project. As  
8       Mr. Byrne testifies, the project team has overcome many of the one-of-a-  
9       kind challenges presented by this project. The financial information I have  
10      provided shows that the impact of lower inflation, lower debt costs and  
11      increased production tax credits will offset the impact of capital cost  
12      increases. Because of these off-sets, the costs of the project to customers is  
13      no greater today that it was in 2008 when SCE&G first came to the  
14      Commission for its approval.

15              Furthermore, the environmental imperatives of reducing CO<sub>2</sub>  
16      emissions are greater than ever. The risks of building a system with an  
17      imbalanced reliance on fossil fuels for dispatchable base load capacity is  
18      certainly no less than it was in 2008.

19              As Dr. Lynch testifies, the Company has updated its modeling of the  
20      cost of completing the Units compared to other alternatives. That modeling  
21      demonstrates that even with today's low natural gas prices—which I believe  
22      are not sustainable over the long run—completing the Units remains the

1 lowest cost alternative for meeting the pressing need of SCE&G's  
2 customers for base load generating capacity. The financial benefits of  
3 completing the Units are clear even when the risk of future natural gas  
4 volatility is ignored.

5 In light of these facts, we believe that the logical and prudent choice  
6 is to proceed with the construction plan and apply the BLRA as written.  
7 The BLRA is the basis on which the project has been successfully financed  
8 to date. It will be the basis for all future financings. The BLRA is the basis  
9 on which SCE&G maintains the creditworthiness necessary to continue this  
10 project. Deviating from the consistent application of the BLRA would put  
11 the financial plan for completing the Units at grave risk. That could  
12 increase the costs of the project to customers dramatically and could well  
13 result in the financial community denying SCE&G access to capital on  
14 reasonable terms. That could make completing the Units financially  
15 impossible which would be a great loss to our customers, to our partner  
16 Santee Cooper, and to our state.

17 My senior management team and I are directly involved in the  
18 management and oversight of the project and in interacting with  
19 WEC/CB&I and its senior leadership team. We are dealing with the issues  
20 with WEC/CB&I aggressively and at the highest levels. The challenges we  
21 are facing are consistent with the risk we identified in our filings in 2008.

1 The important point is that these challenges do not in any way outweigh the  
2 long-term benefits of adding this new nuclear capacity to our system.

3 The construction phase we are in today is temporary. If we stay the  
4 course with construction and with regulation, the Units will be built and  
5 will provide reliable, non-emitting base load power to our customers for 60  
6 years or more. It is my opinion based on thirty-eight years' experience in  
7 this industry that the value of the new nuclear capacity under construction  
8 today remains much greater than any challenges we have encountered or  
9 are likely to encounter during construction of the project.

10 **Q. WHAT ARE YOU ASKING THE COMMISSION TO DO?**

11 A. SCE&G is asking the Commission to approve the updated cost  
12 forecast and construction schedule for the Units as presented in the Petition  
13 in this matter and in the testimony of Mr. Byrne, Mr. Jones, and Ms.  
14 Walker. SCE&G requests that the Commission find that the changes in  
15 cost and construction schedules are the result of risks that have long been  
16 identified as pertaining to a project of this size and complexity. Moreover,  
17 SCE&G requests the Commission to find that SCE&G's management and  
18 development of the project continues to be reasonable and prudent in all  
19 respects.

20 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

21 A. Yes. It does.

1                    **MR. BURGESS:** Madam Chairman, Mr. Marsh is  
2                    available for cross-examination by Mr. Guild and  
3                    questions from Commissioners, if any.

4                    **CHAIRMAN HALL:** All right. We'll take a short  
5                    break before we begin. Five minutes.

6                    [WHEREUPON, a recess was taken from 11:35  
7                    to 11:50 a.m.]

8                    **CHAIRMAN HALL:** Thank you. Be seated.

9                    Mr. Guild, if you will go over to that mic,  
10                   and never leave that mic, please.

11                   [Laughter]

12                   **CROSS EXAMINATION**

13 **BY MR. GUILD:**

14 **Q**     Good morning, Mr. Marsh.

15 **A**     Good morning.

16 **Q**     I'd like to confirm some numbers for you as we try to  
17           examine the Application you have before us. The company  
18           has just recently filed for a Base Load Review Act  
19           annual increase based on the capital costs of the  
20           proposed plants; is that right?

21 **A**     It's based on the revised schedule we received from the  
22           consortium, that's correct.

23 **Q**     Okay. And I have an Exhibit G to that Application  
24           that's identified as a red-lined amended Exhibit G –  
25           corrects a couple of errors, I think. I just wanted

1        you, if I could get you to confirm, subject to check,  
2        the figures that appear on that sheet that I've been  
3        relying on. First, there's a line that's entitled  
4        "Incremental Revenue Requirements-BLRA," and are those  
5        the incremental requirements that are associated with  
6        financing the Units 2 and 3?

7                **MR. BURGESS:** Madam Chairman, would Mr. Guild  
8        be so kind as to show Mr. Marsh what he's reading  
9        from?

10               **MR. GUILD:** I just have one copy, but if  
11        perhaps counsel has available the document, they  
12        could share with him. I'd be happy to show it to  
13        him; it just has my handwriting on it, my  
14        scratching.

15               **CHAIRMAN HALL:** Can you tell us what document  
16        you're referring to?

17               **MR. GUILD:** Yes. It's Exhibit G to the  
18        pending rate increase request by SCE&G. It's their  
19        pending request.

20 **BY MR. GUILD:**

21 **Q**     You filed one in June, did you not, Mr. Marsh?

22 **A**     I believe that's correct. I'll get a copy of it from  
23        the attorneys.

24 **Q**     Perhaps I could just ask –

25               **MR. BURGESS:** You don't have a copy, Mr.

1                    Guild, to show him?

2                    **MR. GUILD:** I have just one copy.

3                    **MR. BURGESS:** Okay.

4                    **VOICE:** It's your document.

5                    **MR. BURGESS:** I think you have to show your  
6 copy to the witness.

7                    **CHAIRMAN HALL:** Okay. Mr. Guild, we're going  
8 to get a copy of that, so that he can review it, as  
9 well. You don't have a clean copy, Mr. Guild?

10                   **MR. GUILD:** No, ma'am, I do not. I assumed  
11 the company would know about their own exhibits.

12                   **CHAIRMAN HALL:** Mr. Zeigler, have you found a  
13 copy?

14                   **MR. ZEIGLER:** [Indicating.]

15                   **WITNESS:** [Indicating.] I've got a copy of  
16 the exhibit. We are ready.

17                   **CHAIRMAN HALL:** Thank you.

18 **BY MR. GUILD:**

19 **Q** Mr. Marsh, you have that before you?

20 **A** Yes, I do.

21 **Q** And make sure you have the amended red-lined version.

22 Do you have that one, sir?

23 **A** Mine says, "Amended Exhibit G."

24 **Q** That's right. "Red-Lined version" under that?

25 **A** I don't see "red-lined version."



1                    **MR. BURGESS:** I think his version is a clean  
2                    version that he has there.

3                    **MR. GUILD:** Well, let's just see –

4                    **MR. BURGESS:** There is a clean version and a  
5                    red-line version. I think Mr. Guild is reading  
6                    from the red-line version. We have a copy of the  
7                    clean version. If you would prefer that he read  
8                    from a red-line version, we'll try to find a red-  
9                    line version.

10                   **MR. GUILD:** It's just the copy I have, Mr.  
11                   Burgess.

12 **BY MR. GUILD:**

13 **Q**     But let me just see if I can get you to confirm the  
14                   numbers. If they're different, just tell me, please.

15 **A**     That's fine.

16 **Q**     But, again, there's a horizontal line that reads  
17                   "Incremental Revenue Requirements-BLRA." You see that?  
18                   Left-hand column?

19 **A**     Yes, I do.

20 **Q**     All right. And it has a series of entries by year,  
21                   running across from left to right, on the page, correct?

22 **A**     That is correct.

23 **Q**     Does that indeed represent the annual increase  
24                   associated with financing Units 2 and 3 under the BLRA?

25 **A**     It would represent through 2014 the revenue requirement

1        that I believe we've already applied under the Base Load  
2        Review Act, and from '15 forward I believe those numbers  
3        would represent the estimated amounts of revenue  
4        increase that will be required, based on the information  
5        we provided in this docket to the Commission.

6        **Q**     Indeed, that's what I'm driving at, all right? So, just  
7        subject to check – and if you have the document, confirm  
8        these numbers appear – for 2015, and that's the pending  
9        application, you show an incremental BLRA revenue  
10       requirement of \$70 million, correct?

11       **A**     That is correct.

12       **Q**     All right. And 2016, \$135 million?

13       **A**     That's correct.

14       **Q**     2017, \$111 million?

15       **A**     That's –

16                    **MR. BURGESS:** Madam –

17                    **WITNESS:** – correct.

18                    **MR. BURGESS:** – Chair, if I may. I'm not  
19       really sure where Mr. Guild is going with this.  
20       He's referring to an Application in another docket  
21       that's not germane to this proceeding. We would  
22       object to this line of questioning on the ground  
23       it's irrelevant.

24                    **MR. GUILD:** Madam Chair, it seems to me that  
25       the –

1                    **VOICE:** If he can –

2                    **MR. GUILD:** – BLRA revenue –

3                    **VOICE:** – stand up, I can stand up.

4                    **CHAIRMAN HALL:** I'm sorry.

5                    **VOICE:** I want to –

6                    **CHAIRMAN HALL:** No, ma'am, you cannot stand  
7 up. You will sit down and behave with some  
8 decorum. The only parties – only parties will  
9 address the Commission.

10                   **Go ahead, Mr. Guild.**

11                   **MR. GUILD:** Madam Chair, the revenue  
12 requirements anticipated to complete the plant  
13 couldn't be any more relevant. This is a document  
14 from the company. It represents an admission by  
15 the company. I can't imagine that the Commission  
16 wouldn't be interested in hearing what the expected  
17 total revenue – incremental revenue requirements  
18 are going to be, associated with these cost  
19 overruns and project delays. That's precisely what  
20 I'm driving at.

21                   **CHAIRMAN HALL:** All right. Mr. Burgess's  
22 objection is sustained, Mr. Guild, so move on,  
23 please.

24 **BY MR. GUILD:**

25 **Q**     Would you accept, subject to check, that the total

1       incremental revenue requirements through the in-service  
2       dates of 2020 amount to \$677 million under the Base Load  
3       Review Act, as you project them?

4     **A**     Not just as a number added up, because those numbers  
5       represent potential future increases. Those are derived  
6       based on the estimates we have in the calculation we  
7       provided the Commission in this case on the revised and  
8       updated schedule. As we have provided in our testimony,  
9       a significant portion of those dollars are still under  
10      dispute and we continue to pursue that dispute with the  
11      consortium. So these are estimates for BLRA purposes;  
12      they would not represent the actual dollars that would  
13      be filed. The only thing that could be filed with the  
14      Commission are actual dollars that are spent when they  
15      are actually spent. These are future dollars and, so,  
16      until they're actually expended by the company, they  
17      would not be included in a rate proceeding.

18    **Q**     Would you accept, subject to check, that my math is  
19       correct, \$677 million, and, with that explanation, is  
20       the total future revenue requirement, 2015 through 2020?

21    **A**     Yes.

22                    **MR. GUILD:** Madam Chair, I ask that this be  
23                    marked as an exhibit and travel with the record as  
24                    an offer of proof, please.

25                    **CHAIRMAN HALL:** It will be Hearing Exhibit

1                    No. 3.

2                    [WHEREUPON, Hearing Exhibit No. 3 was  
3                    marked for identification.]

4                    **MR. BURGESS:** Madam Chairman, may I see that?

5                    **CHAIRMAN HALL:** Go ahead, Mr. Burgess.

6                    **MR. BURGESS:** [Indicating.] Madam Chairman, I  
7                    would object to the handwriting on this document.  
8                    I'm not sure whose handwriting that is. It's  
9                    certainly no witness of ours. So, if Mr. Guild  
10                   wants to include this in the record, he certainly  
11                   has that right to do so, but I would object to the  
12                   writing that's on here.

13                   **CHAIRMAN HALL:** Mr. Guild, do you have a clean  
14                   copy?

15                   **MR. GUILD:** I don't. It's my copy. I submit  
16                   it's my handwriting. You sustained an objection to  
17                   my questioning. I submit that I should be able to  
18                   ask those questions. I'd like the company's own  
19                   document, from which I was questioning, marked as  
20                   an offer of proof to travel with the record. I  
21                   believe, under the Rules of Evidence, I'm entitled  
22                   to have it marked as an offer of proof, whether it  
23                   has my handwriting or not, whether Mr. Burgess  
24                   likes my handwriting or not. I simply ask that the  
25                   record contain a document from which you did not

1            allow me to examine the witness. Thank you.

2            **CHAIRMAN HALL:** Well, certain things, Mr.  
3            Guild. Number one, we prefer a clean copy. I  
4            mean, I don't know if you want your work product  
5            involved or included in the record –

6            **MR. GUILD:** I have no problem with that, Madam  
7            Chair. You can have my handwriting. I just want  
8            to have the record clear that the Commission would  
9            not allow this line of questioning, and that is an  
10          offer of proof to support any evidentiary  
11          objections that I might want to preserve for  
12          appeal. So, I'd ask that it be marked in the form  
13          in which –

14          **CHAIRMAN HALL:** In which –

15          **MR. GUILD:** – I was using it.

16          **CHAIRMAN HALL:** – case, a clean copy would  
17          suffice.

18          **MR. GUILD:** Ma'am?

19          **CHAIRMAN HALL:** I mean, a clean copy would  
20          suffice, would you agree?

21          **MR. GUILD:** I can't under- – I can't hear you.

22          **CHAIRMAN HALL:** A clean copy. Would you not  
23          agree a clean copy would suffice?

24          **MR. GUILD:** Would suffice?

25          **CHAIRMAN HALL:** As an offer of proof?

1            **MR. GUILD:** If I wanted to make it an offer of  
2 proof. But I want that document made an offer of  
3 proof, Madam Chair. It's the document that I was  
4 questioning from, so I would like to have that one  
5 marked as an offer of proof. If the Chair would  
6 like to include a clean copy, as well, I certainly  
7 have no objection to that. My only point is I'm  
8 trying to examine the witness from the company's  
9 own document. You wouldn't let me do it. I'd like  
10 it made an offer of proof.

11            **CHAIRMAN HALL:** We've already sustained that  
12 objection.

13            **MR. GUILD:** What objection is that, Madam  
14 Chair?

15            **CHAIRMAN HALL:** About not going down that line  
16 of questioning. So I'm — we'll include the clean  
17 copy. We'll include a clean copy that you provide.

18            **MR. GUILD:** Madam Chair, I'd like the copy  
19 with my notes on it included as an offer of proof.

20            **CHAIRMAN HALL:** Okay.

21            **MR. GUILD:** If the Chair would like a clean  
22 copy included, as well, as a Commission exhibit —

23            **CHAIRMAN HALL:** No —

24            **MR. GUILD:** — of course, I have no objection.

25            **CHAIRMAN HALL:** The clear copy will be Hearing

Exhibit No. 3, no handwriting.

**MR. GUILD:** Madam Chair, I don't know how to preserve an objection if you won't allow me to put an offer of proof in, so, if the record would just reflect the fact that I would like my document in, regardless of whether it has handwriting on it, as an offer of proof, I would appreciate it.

**CHAIRMAN HALL:** Okay. Well, that's certainly included in the record, and a clean copy will be Hearing Exhibit No. 3.

*[See Vol 3, Pg 398]*

**BY MR. GUILD:**

**Q** Mr. Marsh, let's talk about the estimates of delay.

Would you accept that the company now proposes 38 months and 18 days' additional delay in the completion of construction for Unit 2, as compared to the initial proposed substantial completion date approved by the Commission in the initial Base Load Application?

**A** Yes, the original date for the new Unit 2 was 2016. We have been back to the Commission with updates to that schedule that currently had it, I believe, before this hearing, as being due in 2017.

**Q** Thirty-eight months, 18 days?

**A** I'll take your math, subject to check.

**Q** You need to get a little closer to the mic. I'm having



1            a hard time with the speakers.

2                    **CHAIRMAN HALL:** I'm sorry, Mr. Marsh. Yeah,  
3            again, we can't hear you.

4                    **WITNESS:** [Indicating.] Can you hear me now?  
5            I can't get much closer.

6                    [Laughter]

7                    **CHAIRMAN HALL:** Yeah. I'm sorry.

8 **BY MR. GUILD:**

9 **Q** All right. And at the time the Commission approved the  
10 initial Base Load Order in March 2009, Order 2009-  
11 104(A), there were 85 months until the initial  
12 substantial completion date for Unit 2. Would you  
13 accept that?

14 **A** Subject to check.

15 **Q** Okay. So the 38-month delay – and 18 days – that you  
16 propose now, represents a 45 percent extension of that  
17 initial substantial completion of the construction  
18 schedule, correct?

19 **A** I've not done the math. It's a simple calculation, so  
20 subject to check.

21 **Q** Subject to check. I believe you stated that you  
22 estimate that the additional cost to complete represents  
23 a 15.8 percent increase over the initial capital costs  
24 approved in the initial BLRA Application, correct?

25 **A** I believe I said 15 percent in my testimony.

1     **Q**     All right, I'll accept that. Now, SCE&G already  
2           proposes to sell an additional 5 percent of both units  
3           to Santee Cooper, do they not?

4     **A**     No, that's not correct.

5     **Q**     What's the planned relationship with Santee Cooper in  
6           terms of proportional ownership of the units expected to  
7           be after in-service?

8     **A**     Santee Cooper approached us with a discussion about  
9           selling part of their ownership. They currently own 45  
10          percent of the new units. And after discussions with  
11          Santee, we entered into an agreement with Santee –  
12          subject to this Commission's approval – that we would  
13          purchase an additional 5 percent of Unit 1 – Unit 2, the  
14          first new unit, when it came on-line. That purchase  
15          would take place over a two-year period.

16    **Q**     I see. So, not both units, just Unit 2?

17    **A**     Just Unit 1.

18    **Q**     I'm sorry, Unit 2?

19    **A**     The new unit, which is Unit 2.

20    **Q**     But not Unit 3?

21    **A**     That's correct.

22    **Q**     Okay. So with the addition, then, of an additional  
23          fractional ownership by SCE&G, what impact would that  
24          have on SCE&G's share of the capital costs to complete  
25          the units?

1     **A**     It has no change on the capital costs we presented here.  
2             These capital costs in this filing represent only our 55  
3             percent share. We have not approached the Commission  
4             about the additional 5 percent, so there's nothing  
5             reflected in these numbers for the additional 5 percent,  
6             if we move forward with that.

7     **Q**     Right, I get that. But if you know already that you're  
8             going to sell<sub>[sic]</sub> 5 percent at least of one unit to  
9             SCE&G's co-owner, Santee Cooper, then South Carolina  
10            ratepayers are going to bear a proportional increased  
11            share of the cost of completing the plant, won't they?

12    **A**     We're not going to sell any of our interest to Santee  
13            Cooper.

14    **Q**     No, Santee Cooper is going to sell it to you.

15    **A**     That's correct. I'm just correcting what you said.

16    **Q**     And so, we, collectively, are going to own more of the  
17            units than we would before you sell that fraction –  
18            before you buy that fraction from Santee Cooper,  
19            correct?

20    **A**     Subject to this Commission's approval.

21    **Q**     Right. So how much additional cost will South Carolina  
22            Electric & Gas Company ratepayers bear of the cost of  
23            the two units after that proposed acquisition is  
24            complete?

25    **A**     The purchase is intended to take place at Santee

1        Cooper's book cost. Those numbers are being negotiated  
2        now, but it will be slightly different from SCE&G's  
3        numbers because their accounting is a little bit  
4        different. They follow different procedures than we do,  
5        as a governmental entity. It would be at their book  
6        cost.

7                **MR. GUILD:** Madam Chair, I just apologize but  
8        I'm having a hard time hearing the witness. I  
9        think it's the sound system in some way. It's just  
10       a little garbled and I apologize for pressing him,  
11       but I just don't understand some of his answers.  
12       I'm sure Mr. Marsh is speaking clearly enough; it's  
13       just the system.

14               **WITNESS:** Let me try it again. Is that  
15       better? The 5 percent we would propose to purchase  
16       from Santee Cooper, when the first new unit comes  
17       on-line, would be at Santee Cooper's cost. That  
18       cost would be a little bit different from ours  
19       because they follow different accounting policies  
20       than we do, because they're a governmental entity.  
21       But the intent is to purchase that 5 percent at  
22       their cost, subject to this Commission's approval,  
23       and the payments for that and the related  
24       megawatts, the output, would transfer to SCE&G over  
25       a two-year period.

1     **BY MR. GUILD:**

2     **Q**     All right, understood. So the question that I had for  
3             you, that I don't think you responded to, is, what  
4             additional costs do you expect South Carolina Electric &  
5             Gas ratepayers to bear, of the cost of the total  
6             project, after that contemplated acquisition from Santee  
7             Cooper is complete?

8     **A**     If you make the assumption that the Commission approves  
9             the transfer, then we would assume an additional 5  
10            percent in cost of the total project, based on Santee  
11            Cooper's share of the cost.

12    **Q**     Of Unit 2?

13    **A**     Of Unit 2.

14    **Q**     Not Unit 3?

15    **A**     Not Unit 3.

16    **Q**     Understood. Thank you. Now, you propose a settlement  
17             to the Commission involving an agreed reduction on the  
18             return-on-equity component under the BLRA, from 11  
19             percent to 10.5 percent, correct?

20    **A**     That was part of the settlement agreement.

21    **Q**     [Indicating.]

22    **A**     That was part of the settlement agreement, that's  
23             correct.

24    **Q**     Now, can you confirm ORS's estimate that that has an  
25             approximate \$15 million total-project-lifetime revenue

1            effect for ratepayers?

2     **A**     That is correct.

3     **Q**     Now, you follow – apparently, as you said in your  
4            testimony – the ratings and commentary by the financial  
5            community on the effects of this project on the  
6            company's finances?

7     **A**     Yes, I do.

8     **Q**     You're familiar with Moody's Investors Services, their  
9            commentary on the company?

10    **A**     They do have commentary from time to time, yes.

11    **Q**     You familiar with the piece that they offered that  
12            compared the effects of the nuclear project by SCE&G on  
13            the other AP1000 under construction, the Vogtle project  
14            being built by Georgia Power?

15    **A**     I don't recall that particular piece. I may have read  
16            it. I see a lot of information from Wall Street. I  
17            don't recall that particular piece at this time.

18    **Q**     They characterized the project for you as a transforming  
19            event for SCE&G. You agree with that?

20    **A**     I don't know how they used that "transforming," you  
21            know, word, in context. To me, it's a transforming  
22            aspect of what we'll be able to provide to the State of  
23            South Carolina with the clean energy that will come from  
24            the project over 60 years. I think that will transform  
25            what South Carolina is able to do by providing clean,

1        non-emitting, reliable power to its customers.

2     **Q**        Here's what they said that meant –

3                **MR. BURGESS:** Objection. That's hearsay.

4                **CHAIRMAN HALL:** Sustained.

5                **MR. GUILD:** Madam Chair, I'm not testifying;  
6        this is cross-examination. I believe I'm entitled  
7        to put a question to the witness. I'm not offering  
8        evidence; I'm asking the question, and I can quote  
9        from anything I want to, I thought, under the Rules  
10       of Evidence, Madam.

11               **MR. BURGESS:** Madam Chairman, if I may, Mr.  
12       Marsh indicated he was not familiar with that  
13       particular writing Mr. Guild's referring to.

14               **MR. GUILD:** Whether or not, Madam Chair – this  
15       is open cross-examination in South Carolina, and I  
16       have never been restrained in a court of law from  
17       asking a question based on any supposition. I am  
18       proposing to him a premise. He doesn't have to  
19       agree with it. He can think I'm making it up, for  
20       that matter. But the fact remains, I'm entitled to  
21       frame a question under the Rules of Evidence.

22               **CHAIRMAN HALL:** Okay. Finish your question,  
23       Mr. Guild.

24     **BY MR. GUILD:**

25     **Q**        Transforming event for SCE&G. Would you accept that

1        adding these units alters SCE&G's nuclear generation  
2        dispatch from 24 to 80 percent?

3     **A**    I've got that information. Just bear with me for a  
4        minute [indicating]. From a dispatch perspective, in  
5        2014, the dispatch for nuclear is around 19 percent; in  
6        2021, when both units are expected to be on-line, it  
7        would go to 56 percent.

8     **Q**    All right. Would you accept, subject to check, that  
9        Georgia Power, which is building Vogtle, will go from  
10       only 23 percent nuclear generation dispatch to 30  
11       percent, adding the two Vogtle units?

12    **A**    I don't know about their generation mix.

13    **Q**    Would you accept that the nuclear units will represent  
14       26 percent of your total capacity once they're on-line?

15    **A**    I have 32 percent, including our current unit.

16    **Q**    Georgia Power/Southern Company, the Vogtle unit is only  
17       2 percent of their total generation. You accept that?

18    **A**    That sounds very low, but I don't have the details of  
19       their generation mix.

20    **Q**    SCE&G proposes to – is expected to seek annual rate  
21       hikes under the Base Load Review Act that approximate 3  
22       percent per year, to finance the Summer units. Would  
23       you accept that?

24    **A**    I think the average has been about 2.3, 2.4.

25    **Q**    But in Georgia, it's only 1 percent to finance Vogtle.



1            Would you accept that?

2     **A**     I don't have the details of their financing plan or  
3            their generation mix, so I just can't verify those  
4            numbers.

5     **Q**     March 16, 2015, Moody's says, quote, "'SCANA and SCE&G  
6            are completely exposed to and dependent on the BLRA,'  
7            said Susana Vivares, vice president/senior analyst."  
8            Are you familiar with that comment by Moody's?

9     **A**     I've had a number of conversations with Moody's about  
10           the impact of the Base Load Review Act and the  
11           importance of its application in the building of our  
12           units. That comment would not surprise me. When we  
13           came to the Commission in 2008 and put the idea in front  
14           of the Commission of building these new plants because  
15           we felt like they were the best opportunity for us to  
16           serve the base-load needs of our customers for years to  
17           come, we produced that – we filed that case under the  
18           Base Load Review Act.

19           I was here in the '70s and the '80s when nuclear  
20           plants were built initially; there were a number of  
21           challenges that were met by utilities. One of those was  
22           the compounding of interest rates on top of expenditures  
23           while the plants were being built, before they came on-  
24           line. We felt like, under the Base Load Review Act – or  
25           we knew under the Act, if we were able to recover the

1        financing costs of the plants on a current basis, that  
2        would save us approximately \$1 billion in financing  
3        costs, which in turn would save the customers \$4 billion  
4        over the life of the plant.

5                So I've told this Commission before, without that  
6        Base Load Review Act, I don't know that we would have  
7        proceeded with construction, because that's the  
8        construct under which the plants are financed; that is  
9        the way we presented the plants to the financial  
10       community. They understand how that works. They  
11       understand the benefits of building the plants that way.  
12       We had done that on several smaller projects prior to  
13       bringing the new nuclear project to the Commission. The  
14       BLRA just really codified the existing procedures that  
15       minimize the need for extended rate cases during the  
16       process, as long as the company was proceeding in  
17       accordance with its schedule or updates to that schedule  
18       it presented and were approved at the Commission.

19                So for Moody's or any other investor on Wall Street  
20        to say they find a very close link between our project  
21        and the Base Load Review Act is really no surprise. I  
22        would expect them to say that, because the two are very  
23        closely tied hand-in-hand and one of the foundational  
24        reasons we're able to build this project on favorable  
25        financing terms from Wall Street.

1     **Q**     Does that complete your answer?

2     **A**     Yes, it does.

3     **Q**     "The utility has exhausted its financial cushion, is  
4            overbudget, and still years away from commercial  
5            operation. We," Moody's, "think the risk that South  
6            Carolina's electric consumers become less willing to  
7            absorb these cost increases is going to rise. In turn,  
8            the filing will...turn up the heat on...regulators."  
9            You familiar with that comment by Moody's?

10    **A**     I have not read that comment.

11    **Q**     Do you dispute the notion that you've exhausted your  
12            financial cushion?

13    **A**     I'm not sure exactly what they are referring to in terms  
14            of the financial cushion. We don't have money on  
15            reserve on Wall Street. Every time we go to Wall Street  
16            to raise funds, whether it's to sell equity or sell  
17            bonds, each issuance stands on its own. They may be  
18            talking about the original contingency that was put in  
19            place in the initial Base Load Review order, that we  
20            discussed with this Commission at length in several  
21            proceedings. That may be what they were referring to.

22    **Q**     You certainly don't dispute the notion that you're  
23            overbudget and still years away from commercial  
24            operation, do you?

25    **A**     I don't agree with the term "overbudget." When we

1       brought this project to the Commission in 2008, we  
2       talked about the way we laid out the contract with the  
3       consortium at the time between Westinghouse and Shaw,  
4       and there were three major components. One of those is  
5       a firm category – one was firm, one was firm with fixed  
6       escalation, and the third was a final bucket of targeted  
7       dollars, which essentially were dollars that were at  
8       risk because to fix those amounts would have been  
9       excessively expensive to the company and for our  
10       customers, and those costs will be paid by SCE&G and  
11       Santee Cooper at their actual rates. The majority of  
12       that is labor and costs related to labor.

13                As we've gone through the project, we've made  
14       estimates of the work that needs to be done. Some of  
15       those estimates have been challenged by the company,  
16       which we included – details about that is included in  
17       this filing. So the fact that those target dollars have  
18       gone up, in my mind, doesn't mean we're overbudget; that  
19       means we've refined those costs. And as we have refined  
20       those, we've come back to the Commission and explained  
21       those in every case we've been before the Commission for  
22       approval.

23       **Q**       I guess I just don't understand what the concept of  
24       "budget," then, is. If budget is what the Commission  
25       relied on when they gave you your initial BLRA approval,

1        then what do you have in front of them right now that's  
2        \$698 million on top of that initial proposal? Which is  
3        the budget?

4        **A**    We've provided projections to the Commission of the  
5        costs, based on the best information available at the  
6        time. We told the Commission those dollars would be  
7        subject to change as additional information was  
8        available. There were certain risks that may arise on  
9        the project. We've had a number of those risks that  
10       have identified themselves. We've addressed those.  
11       There have been costs associated with those and we've  
12       been back to the Commission to raise our estimates, as  
13       appropriate.

14       **Q**    So, in effect, the Commission accepted your initial Base  
15       Load Review with those risks in mind, and we made you  
16       build nuclear plants. We put a gun to your head to  
17       build these nuclear plants at whatever cost they were  
18       going to amount to, because there is no budget. Is that  
19       your testimony?

20       **A**    That's not my testimony, and I want to make it clear on  
21       the record that no one from the Commission has put a gun  
22       to my head and asked me to do anything. We simply put  
23       our proposal to build the nuclear plants before the  
24       Commission. We believed then, and we believe now, that  
25       that was a good-faith estimate of what we expected the

1       costs to be. We have updated that, as appropriate. And  
2       I would offer the Commission that the costs we presented  
3       to the Commission back in 2008, when you look at the  
4       ultimate costs to be paid by customers, have not  
5       changed. While some of the construction costs have gone  
6       up, we've saved \$1.2 billion in interest costs because  
7       we've been able to take advantage of lower interest  
8       rates. We believe we'll receive an additional \$1  
9       billion dollars in production tax credits because there  
10       are fewer new nuclear plants being built in the United  
11       States, and we'll qualify for more incentives available  
12       from the federal government. When you roll that  
13       together with the cost adjustments we presented to you  
14       today, the cost is the same as it was in 2008 for  
15       customers over the life of the project. There's been no  
16       change.

17                So to say we are overbudget, I don't accept that  
18       connotation, because you're only looking at one aspect  
19       of the project, and that's project cost. And,  
20       certainly, project costs will ultimately be passed on to  
21       consumers, but that's only one part of what customers  
22       pay. You have to look at production tax credits,  
23       financing costs, operating costs. It's all those  
24       factors that impact the customer's bill; it's not just  
25       the estimated construction cost.

1     **Q**     So let's focus on those estimated construction costs,  
2            because that's why we're here. Page 37 and following of  
3            your testimony identifies those risks that you put  
4            before this Commission, risks that have turned out  
5            adversely and to which you attribute the substantial  
6            portion of the increased costs to complete the project;  
7            is that right?

8     **A**     Yes, I identify a number of risks in my testimony.

9     **Q**     These are the risks that did not pan out as you hoped  
10           and expected they would when you talked about them as  
11           efficiencies that would limit the costs of completing  
12           the project in the initial Application, correct?

13    **A**     I don't recall that we used the word "efficiencies." We  
14           certainly were open and honest about the modular  
15           construction efforts and how we thought that would help  
16           us build the project the way it was presented.

17    **Q**     Okay. Page 37, enumerating these by topic, "modular  
18           production," that was one of the expected construction  
19           efficiencies that you initially projected.

20    **A**     It is one of the risks we identified.

21    **Q**     Well, it's a risk you identified, but you identified it  
22           initially as a positive that was going to save money on  
23           construction of the units, correct?

24    **A**     That was our initial expectation, associated with the  
25           risk that goes with that.

1     **Q**     And that expectation has not been borne out, has it?

2     **A**     In some cases, it has not. Module production goes  
3            through a number of phases. It starts with the  
4            submodule fabrication, a lot of which is coming from  
5            Lake Charles, Louisiana. That was a subcontractor on  
6            the job that was hired by Shaw and, ultimately, CB&I.  
7            The challenge has been in producing those submodules in  
8            a way that met the design applications. Many cases,  
9            some of the designs changed, as they were building the  
10           modules – the submodules, because of constructibility  
11           concerns. They needed to make sure they were in  
12           compliance with all the quality-control assurances that  
13           we needed for a nuclear project.

14                What I can tell you is, once those parts and pieces  
15                had been delivered on site and we put together the  
16                complete module, which was then placed into the reactor  
17                vessel or elsewhere on site, we've had a pretty good  
18                track record of putting those pieces together once they  
19                arrive on site. The challenge has been in the initial  
20                fabrication of those submodules, before they are sent to  
21                the site for assembly.

22     **Q**     I look forward to talking to your witness, Mr. Byrne,  
23            about those efficiencies or lack thereof, at the plant  
24            and at those subcontractors, but suffice it to say, the  
25            assumption that you made at the time of the initial



1        Application is that the modular approach to construction  
2        would provide cost savings in the construction of these  
3        new AP1000-design units, correct?

4    **A**    I don't think you can put forth the assumption without  
5        the underlying risk we identified with that assumption.  
6        I think you have to take it as a whole.

7    **Q**    All right. Page 38, the second risk you identify as  
8        having disclosed to the Commission when they approved  
9        this Application was "construction efficiencies,"  
10       correct?

11   **A**    That's correct.

12   **Q**    Again, citing advanced modular construction and  
13        standardized design as being the source of expected  
14        construction efficiencies, correct?

15   **A**    That's what we laid out as the plan, along with the risk  
16        that was associated with it.

17   **Q**    Third, you identified "rework" as a risk – correct?

18   **A**    That's correct.

19   **Q**    – but note that since AP1000 units have not yet been  
20        built, problems may arise during construction requiring  
21        rework, correct?

22   **A**    That's what we identified in our filing, that's correct.

23   **Q**    And "scope changes," again, page 38, that there can be  
24        changes in design, changes in regulatory requirements,  
25        midstream during construction, correct?

1     **A**     We discussed that with the Commission at the initial  
2             filing, that these plants to be built at the  
3             Jenkinsville site, as well as the ones built at Vogtle  
4             by Georgia Power, are the only ones being built in the  
5             United States. However, there are four AP1000s under  
6             construction in China that started several years before  
7             our project started, and we expected and have received  
8             some design changes from that process. Mr. Byrne can  
9             address that in more detail. But we've tried to  
10            incorporate design changes that were considered  
11            necessary, that refined the original design, into our  
12            process. Of course, it takes time and effort to do  
13            that, and that has contributed to some of the delays we  
14            have encountered. Mr. Byrne can go into more detail,  
15            but there could be constructibility issues by the  
16            fabricator as they take the design drawings and try to  
17            actually produce the work that's in the design drawings,  
18            and they have to go back to the designers to try to work  
19            through those issues.

20     **Q**     Those Chinese AP1000s, are they up and running now?

21     **A**     The Sanmen – first unit at Sanmen is physically  
22             complete. Mr. Byrne can give you more details. If you  
23             were to look at a picture of the plant, you would think  
24             it complete. It's beginning to go through some of the  
25             testing processes that would need to be completed before

1            they load fuel. I believe the latest estimate is they  
2            would look to be operational in 2016.

3     **Q**     All right. Short answer is, none of those AP1000s are  
4            on-line yet, producing electricity, are they, in China?

5     **A**     At this point, no.

6     **Q**     I'm sorry. You were garbled on that answer.

7     **A**     No.

8     **Q**     Of course, as I think we established in an earlier  
9            proceeding, Chinese Communists run the regulatory system  
10           in China, don't they?

11    **A**     That's not the way we refer to the process. They do  
12           have an oversight process in China. They have an  
13           oversight group that looks at the work that's done by  
14           the utilities that are building those projects. I  
15           wouldn't offer it's equivalent to the South Carolina  
16           Public Service Commission or the Nuclear Regulatory  
17           Commission, but they do have oversight of those  
18           projects. Westinghouse has been on site as the designer  
19           of that facility, to make sure it's built to the same  
20           standards that we would expect. CB&I, or Shaw, the  
21           initial contractor, has been involved in the  
22           construction of the units to make sure they're  
23           constructed in accordance with the design efforts that  
24           are also being followed here in the United States.

25    **Q**     Well, to be clear, the Nuclear Regulatory Commission is

1            not licensing the Chinese AP1000s, are they?

2     **A**     We have never represented that the NRC was overseeing  
3            the construction of the plants in China.

4     **Q**     And do you know whether or not they've imposed, in the  
5            Chinese reactors, standards that are equivalent to the  
6            quality-assurance standards required of our Nuclear  
7            Regulatory Commission?

8     **A**     I'll let you ask Mr. Byrne that. He's involved in the  
9            detailed design and construction more so than I am.  
10          He'll be happy to address that question.

11    **Q**     I'll do that, but as you sit here today, do you know  
12          whether or not the Chinese designs meet the stringent  
13          quality-assurance standards imposed by the US NRC on  
14          domestic US reactors?

15    **A**     I believe I said earlier they're not under the  
16          jurisdiction of the Nuclear Regulatory Commission. The  
17          exact design, I would let Mr. Byrne address that  
18          question.

19    **Q**     And on page 39, lastly, of the risks that you say this  
20          Commission forced you to take, you identify "design  
21          finalization" as a risk that you assumed would work out  
22          to your advantage, and has imposed additional cost,  
23          correct?

24    **A**     I don't agree with your assessment that the Commission  
25          forced us to take these risks. We presented this

1        project as a whole, for the good of South Carolina, to  
2        make sure we could provide clean, base-load energy for  
3        60 years. We believed then that was the best option,  
4        and we believe that today. We were not forced by the  
5        Commission to do this. They agreed with our assessment.  
6        We spent probably almost two weeks in here. You were  
7        involved with that proceeding. We heard a lot of  
8        testimony; there were probably thousands of pages of  
9        testimony filed. We heard from a lot of witnesses. And  
10       at the end of the day, an agreement was reached that  
11       that was the best alternative for the State of South  
12       Carolina because of the benefits associated with nuclear  
13       power. We were not forced to do that.

14                On a project of this size, you know, design  
15       finalization is rarely completed when a project starts.  
16       We built our Cope generating facility, our coal-fired  
17       plant, back in 1996. The design was not completed when  
18       that plant started construction. It's typically  
19       completed along the way and finishes in time to make  
20       sure the components are available and the design is  
21       available to finish the project. So there's design that  
22       takes place throughout the process.

23                We never represented to the Commission that the  
24       design was completed. We offered that this was a new  
25       design; a conceptual design had been done. The design

1        had been certified by the Nuclear Regulatory Commission.  
2        There were several dockets that were heard before the  
3        Nuclear Regulatory Commission to certify that design.  
4        And there were a number of dockets – if I recall, it was  
5        probably 18 or 19. I think the design certification was  
6        probably docket 19, if I remember my numbers correctly.  
7        But there was a lot of work on the initial design, but  
8        the detailed design of the individual components had to  
9        be done as the project was under construction.

10                Certainly, a large percentage of that is done now.  
11        There remains a percentage that will still need to be  
12        completed as we move forward. I'll ask you to get Mr.  
13        Byrne to give some more detail on that, but we have  
14        never represented that the design was completed from the  
15        day we started the project. That's not customarily the  
16        way large projects of any kind are done, whether it's a  
17        large power plant or a large project for any other type  
18        facility.

19    **Q**        Well, you did represent to the Commission that under the  
20        now current, existing regulatory process, the NRC uses a  
21        combined operating license. You don't go through a  
22        construction permit and then an operating license; they  
23        have one proceeding, and that's the COL, or combined  
24        operating license. And that was an efficiency you  
25        expected, correct?

1     **A**     That was a new process that was offered by the  
2           Commission for building new nuclear facilities. It was  
3           the first time it had been offered. We expected there  
4           would be challenges to work through that. We've  
5           encountered some challenges and we've been working  
6           through that with the NRC. And it's working as  
7           designed.

8     **Q**     So when you came to this Commission, you told them you  
9           had a streamlined or a new one-step NRC licensing  
10          process, but you also told them that you didn't have a  
11          complete design yet for the reactor, and you were going  
12          to have to complete that design while construction was  
13          underway. You told the Commission that, you're saying?

14    **A**     We had the design that was certified by the Nuclear  
15          Regulatory Commission. The plants could not move  
16          forward with nuclear construction until that design was  
17          completed and the company issued an operating license.  
18          At the time we came to the Commission in 2008, we did  
19          not have that license in hand. We were in the process  
20          of making application to the NRC to obtain that license.  
21          We obtained that license in, I believe it was, March of  
22          2012, which meant, from an NRC perspective, the design  
23          was certified for the plant as meeting its regulatory  
24          safety requirements.

25    **Q**     Page 39 of your testimony, "In light of these risks,

1        SCE&G...acknowledged in 2008 that cost and schedule  
2        updates might be required." Quote, "The Commission  
3        agreed that under the BLRA these updates would be  
4        allowed so long as they were not due to the imprudence  
5        of the utility." That's what your testimony is, right?

6     **A**    I believe that comes from the Base Load Review Act  
7        itself. As we told the Commission, I told the  
8        Commission myself, we are presenting the schedules as  
9        our best estimate of our informed judgment of what these  
10       plants will cost. We talked about the fixed costs, we  
11       talked about the firm with fixed escalation, and we  
12       talked about the targeted categories. At that time,  
13       about 50 percent was fixed; that's now moved to 66-2/3.

14           I committed to the Commission that, as information  
15       changed or the cost information needed to be revised,  
16       that we would be back before the Commission to explain  
17       the reasons behind it and give them a chance to ask us  
18       questions. ORS is on site on a daily basis. They  
19       review this information; they sit in our meetings; they  
20       have access to all the documents. Our commitment was we  
21       would inform the Commission, as the Base Load Review Act  
22       requires us to, from a full transparency perspective,  
23       and make them aware of the changes. We've been back  
24       several times to do that and presented that information  
25       with the Commission, under the Act, and to this point



1        they have found nothing that's been done that was  
2        imprudent by the company.

3                We believe the information we provided in this case  
4        supports the evidence that these costs are justified to  
5        be added to the estimate of construction and the change  
6        in the schedule, and the company has acted prudently in  
7        bringing that information and managing the project.

8        **Q**     All right.

9                **CHAIRMAN HALL:** Mr. Guild, we're going to  
10       break for lunch now. We will come back at 1:15 –  
11       1:45.

12                        [WHEREUPON, the witness stood aside.]

13                        [WHEREUPON, a recess was taken from 12:35  
14       to 2:10 p.m.]

A F T E R N O O N    S E S S I O N

**CHAIRMAN HALL:** Thank you. Be seated.

[Witness recalled]

THEREUPON came,

**K E V I N    B .    M A R S H ,**

recalled as a witness on behalf of the Petitioner, South Carolina Electric & Gas Company, who, having been previously affirmed, was examined and testified further as follows:

**CHAIRMAN HALL:** All right. Before we resume Mr. Guild's questioning of Mr. Marsh, I think there was something we need to take up? Mr. Burgess?

**MR. BURGESS:** Thank you, Madam Chairman. One preliminary matter before we begin. Before we took a break, there was an objection lodged by SCE&G as to the relevance of the document that Mr. Guild was cross-examining Mr. Marsh on. So, we hereby withdraw that objection. So if Mr. Guild wishes to cross-examine Mr. Marsh on what I believe to be Exhibit G, the red-line version, which is from the revised rates docket, we have no objection to that line of questioning.

**CHAIRMAN HALL:** Okay. The document is Exhibit G to what docket?

**MR. GUILD:** Madam Chair, it's 2015-160-E.

**CHAIRMAN HALL:** -160-E.

1                    **MR. GUILD:** The revised rates docket.

2                    **CHAIRMAN HALL:** Okay. All right, thank you.

3 All right. And Mr. Guild, the objection has been

4 withdrawn, and we've now identified the document.

5 So, before, I ruled that the clean copy would come

6 into evidence, but for what purpose do you want it

7 entered at this time?

8                    **MR. GUILD:** So, Madam Chair, I would move that

9 a clean copy of that document, Amended Exhibit G

10 from the docket we just referred to, be marked for

11 identification and received in evidence. I've got

12 just a question or two about it. But I would like

13 it, now, received as an exhibit.

14                    **CHAIRMAN HALL:** Okay, the clean copy.

15                    **MR. GUILD:** Yes, ma'am.

16                    **CHAIRMAN HALL:** Because we were – the dispute

17 was about the handwritten copy.

18                    **MR. GUILD:** The clean copy in as an exhibit,

19 please.

20                    **CHAIRMAN HALL:** Okay, so the clean copy –

21                    **MR. BURGESS:** Madam Chairman, just so as not

22 to confuse, there is a red-line version of that

23 document –

24                    **CHAIRMAN HALL:** Okay.

25                    **MR. BURGESS:** – and there's a clean version of

1            that document. I believe the document Mr. Guild  
2            had was the red-line version that had his  
3            handwritten notes on it. So we certainly have no  
4            objection to the red-line version coming in, absent  
5            any handwritten notes, or, if you would prefer to  
6            put the clean version in, absent any handwritten  
7            notes – I know it's a little confusing.

8            **CHAIRMAN HALL:** Okay.

9            **MR. BURGESS:** – I think that would be  
10           sufficient for us.

11           **CHAIRMAN HALL:** All right. So right now,  
12           we've made Hearing Exhibit 3 the clean red-line  
13           copy? Is that correct, Mr. Butler?

14           **MR. BUTLER:** I think that was correct.

15           **CHAIRMAN HALL:** Okay.

16           **MR. BUTLER:** Mr. Guild was just getting ready  
17           to, I think, identify –

18           **CHAIRMAN HALL:** Okay, go ahead, Mr. Guild.  
19           I'm sorry.

20           **MR. GUILD:** It's immaterial. Either one – the  
21           contents are the same with the exception of the  
22           corrections. But if it's the company's preference,  
23           we'll have the clean copy of the final non-red-line  
24           version of that Exhibit G. I'd ask that be  
25           received in evidence, please.

1                    **CHAIRMAN HALL:** All right.

2                    **MR. BURGESS:** That's perfectly acceptable with  
3                    us.

4                    **CHAIRMAN HALL:** All right. Well, it's already  
5                    in as evidence. Hearing Exhibit No. 3.

6                    *[See Vol. 3, Pg 398]*

7                    **FURTHER CROSS EXAMINATION**

8 **BY MR. GUILD:**

9 **Q**     Good afternoon, Mr. Marsh. Thank you for your patience.

10 **A**     Good afternoon. Is the microphone working better?

11                    **MR. BUTLER:** Much. Much better.

12                    **CHAIRMAN HALL:** Okay, yeah, and I do apologize  
13                    for that. Apparently, an amplifier wasn't on. And  
14                    so, we do apologize. And, yes, now all the  
15                    Commissioners can hear.

16                    **MR. GUILD:** Everybody sounds like themselves,  
17                    Madam Chair, and also Mr. Marsh I hear loud and  
18                    clear.

19 **BY MR. GUILD:**

20 **Q**     Would you just accept, subject to check, Mr. Marsh,  
21                    again from that document – the company's Amended Exhibit  
22                    G – that if you total the entries for "Incremental  
23                    Revenue Requirement-BLRA" from years 2015 through 2020,  
24                    recognizing that those latter years are estimates, as  
25                    you said, that the total of those values would be \$677

1        million, subject to check?

2     **A**     Subject to check, yes.

3     **Q**     Now, Mr. Marsh, as you relayed in your testimony, the  
4        company is currently in a dispute with the consortium –  
5        the Westinghouse Consortium – with regard to who bears  
6        the costs for a number of elements in the capital costs  
7        of the proposed Unit 2 and Unit 3 reactors, correct?

8     **A**     That's right. The numbers that we presented in the  
9        filing before the Commission today represent the best  
10       estimate of the costs to complete the plants at this  
11       time, but do reflect – we have noted in my testimony,  
12       and others' – that there are disputes related to certain  
13       costs included in those amounts.

14    **Q**     And what's the form, currently, of those disputes, Mr.  
15        Marsh?

16    **A**     We have been in discussions with the consortium on  
17        numerous occasions since we got the revised integrated  
18        schedule. I believe it was in August of last year, and  
19        the cost data that went with that schedule followed  
20        shortly thereafter. Once we got the cost information,  
21        we put a team together on the site, at the project, to  
22        review the schedule, to understand the assumptions  
23        they'd made, and to challenge the costs and the data  
24        that was in that schedule to determine, one, if we  
25        thought it was a reasonable estimate to reflect what it

1        would take to complete the plants, based on the timeline  
2        they had given us. Our team on site agreed with the  
3        costs as the best estimate we had at the time and what  
4        it would take to complete the plants by June of '19 –  
5        Unit 2 in June of '19 and Unit 3 in June of 2020. And  
6        based on that, we then began to negotiate over who would  
7        be responsible for the costs. So we didn't have a  
8        dispute over what the costs were and whether or not they  
9        were reasonable; it was a question of accountability or  
10       who would be actually the one to pay the costs.

11    **Q**    Yeah, precisely. So with regard to that latter point,  
12       the amounts of the costs in dispute with respect to who  
13       pays, what is the company's current claim against the  
14       consortium? How much money are you asking for?

15    **A**    Well, there are amounts identified in the testimony, if  
16       you'll bear with me just a second.

17    **Q**    Sure.

18    **A**    There are total delay EAC costs of about \$324,803,000.  
19       That's net of liquidated damages. Then there's the  
20       total owner's costs associated with the delay of  
21       \$214,000,307. The combination of those, I believe, if  
22       I've added my numbers correctly, reflects the part that  
23       we would dispute as part of the additional costs  
24       associated with the project.

25    **Q**    So that's roughly \$538 million, if I'm adding correctly?

1     **A**     It's 538, 539, somewhere in there, that's correct.

2     **Q**     All right. And have you made a formal claim against the  
3     consortium in that amount?

4     **A**     We have talked with the consortium about our  
5     disagreement with those costs, and the reasons giving  
6     rise to those costs, principally – the delay in the  
7     structural submodules that have been delivered to us,  
8     and some productivity factors based on the work that's  
9     being performed at the plant – and do not believe that  
10    we are responsible for paying these costs. We have  
11    identified those cost to them. We have, you know, not  
12    gone to a legal proceeding at this point, but,  
13    certainly, that's an option we will have at some point  
14    down the road if we can't find a fair resolution.

15            But the challenge we've got is to work to defend  
16    these claims on behalf of the company and, ultimately,  
17    our customers, but at the same time, maintain a  
18    reasonable working relationship with the consortium so  
19    they'll continue to work on the project. If we just  
20    stopped work on the project until we resolved the  
21    claims, that would severely limit our ability to finish  
22    these units in a timely fashion. So we're in  
23    discussions; we've had numerous discussions with the  
24    senior level management team at CB&I and Westinghouse.  
25    Mr. Byrne and I, along with other representatives from



1        Santee – Lonnie Carter, their president – we've been to  
2        Toshiba to talk to them about the costs, some of the  
3        disagreements we've got.

4                So it's an ongoing discussion. We've sent a number  
5        of letters that have outlined our concerns of why we  
6        think these costs are not appropriate, but, in terms of  
7        filing a claim, you know, we have not filed a claim –  
8        specifically, a claim in court – because we've not  
9        gotten to the point where we feel like it's necessary to  
10       file litigation at this point.

11    **Q**        Well, we'll get to that. The question really is, is  
12       there a number? Is there a number in a document or a  
13       writing that you have presented to the consortium that  
14       represents the demand by SCE&G, on behalf of your  
15       stockholders, us ratepayers, for how much you want them  
16       to write you a check for, or pay?

17    **A**        We presented these numbers in discussions with the  
18       consortium at a variety of levels. I'm sure they've  
19       been discussed at the plant site level, with the people  
20       on site there that are involved in the day-to-day  
21       construction activities and the finances related to  
22       that. We've had them at Mr. Byrne's level. Our chief  
23       nuclear officer has had discussions with the consortium  
24       about these costs. I've been involved in discussions.  
25       So we presented these numbers and discussed them on

1            numerous occasions.

2     **Q**     You're not quite getting my question, I don't think.    My  
3            question is, if I were to look for a document, would I  
4            find a document from SCE&G to the consortium saying,  
5            "You owe us 538, give or take, dollars, because of your  
6            responsibility for the delay, et cetera, in completing  
7            this project"?

8     **A**     I don't know that there's one document that includes  
9            that amount.    The schedule we have filed as part of our  
10           testimony here outlines the specific amounts that we  
11           have disputed.    I can attest to the Commission that we  
12           have discussed these items directly with the consortium,  
13           Westinghouse and CB&I, as part of our negotiation  
14           process.

15    **Q**     Now, does the EPC contract contemplate some other  
16            dispute resolution mechanism – arbitration or mediation,  
17            for example?

18    **A**     There are opportunities for arbitration and mediation as  
19            part of the dispute resolution process.

20    **Q**     And has South Carolina Electric & Gas Company invoked  
21            formal arbitration processes to resolve the cost dispute  
22            with the consortium?

23    **A**     We've not gone to the formal level of doing that.    We've  
24            certainly made it clear to the consortium that we  
25            reserve the right to do that.    History tells us – my

1        history tells me, from my years of being in business, if  
2        you can resolve the issues without having to go through  
3        the legal steps, you're likely to get, potentially, a  
4        better decision.

5        **Q**     Don't say bad things about us lawyers, now, Mr. Marsh.

6                                [Laughter]

7                                Might need one every once in a while.

8        **A**     And I've had plenty of them work for me in the past.

9                                You know, we certainly want to keep the lines of  
10        communication open. I don't think there's any question  
11        we've raised the disputes to the consortium. We've  
12        leaned on them extremely hard, and made sure they  
13        understand their position. The consortium – I need to  
14        be honest with the Commission – they have a position  
15        that's very different from ours, which is why we're in  
16        negotiations. We intend to, you know, push hard on our  
17        side and look for a resolution that's beneficial to us  
18        and, ultimately, our customers, but at the same time  
19        trying to keep the work on the plants underway.

20        **Q**     So, you've not initiated formal litigation. Your  
21        testimony is clear about that.

22        **A**     That's correct.

23        **Q**     Although, you contemplate that as a potential, possible  
24        remedy.

25        **A**     It is a remedy – a potential remedy down the road.

1     **Q**     All right. You've not invoked any alternative dispute  
2           resolution mechanisms that are contemplated in the EPC  
3           contract, such as binding arbitration or mediation, up  
4           to date, have you?

5     **A**     That's correct.

6     **Q**     You've had discussions with them, but there's no  
7           specific dollar that you've put forward – the 538 which  
8           you offered as the estimated total of the costs  
9           associated with their responsibility, you haven't put  
10          that number to them yet, have you?

11    **A**     I think what I said earlier was I don't know that that's  
12          in one single document, but we have certainly discussed  
13          these amounts with the consortium. I mean, we wouldn't  
14          have put information in this schedule under oath to the  
15          Commission unless we had documented that and made it  
16          clear that's what we thought the amount in dispute was.

17    **Q**     All right. Now, if the matter required litigation to be  
18          resolved, what would be the determinative basis for  
19          costs being required of the consortium? What kind of  
20          acts or omissions on their part would trigger liability  
21          or responsibility for those additional costs, Mr. Marsh?

22    **A**     I'm not sure I understand the question. The costs that  
23          we have identified are costs that they have outlined in  
24          the rebaselined integrated scheduled to complete the  
25          project. We have not disagreed with those costs. We

1        believe those costs are known today; they're the best  
2        estimate available today, and that's why we included it  
3        in this updated filing. The question is, who's  
4        responsible for the costs?

5        **Q**    That's right. So my question to you is, what is the  
6        basis for determining responsibility for those costs?  
7        Do you have to establish that the consortium was in  
8        violation of some contract term for them to be  
9        responsible, that they breached a contract term? Is  
10       that one?

11       **A**    Certainly, we've identified in our testimony that we  
12       don't think the consortium is in compliance with the  
13       contract, specifically in the areas of the submodules  
14       that are delivered to the plant site, to comprise the  
15       modules that are put together there, and in their  
16       productivity on the site.

17       **Q**    Let's take those – sorry. Did you finish your answer?

18       **A**    I'm through.

19       **Q**    Let's take those two. So, with regard to the delivery  
20       of the submodules at the site, what is it – what's the  
21       company's contention with regard to the dereliction or  
22       failures by the consortium in that regard?

23       **A**    We don't believe the submodules have been delivered to  
24       the plant in a timely fashion to be in compliance with  
25       the schedules included in the agreement with the

1        consortium in the EPC contract. Their contention is,  
2        there have been regulatory changes that have principally  
3        caused the changes in delivery dates on those  
4        submodules, and we simply have a disagreement.

5     **Q**    All right. So it's their contention that the rules of  
6        the game changed and that's why they're slow in  
7        delivering the submodules? Is that the essence of it?

8     **A**    That's their primary concern.

9     **Q**    All right. Your contention is to the contrary, that  
10       they just didn't meet quality standards in producing  
11       those submodules, and they had to take longer to get  
12       them right to deliver them in the form in which the NRC  
13       would allow you to use them, right?

14    **A**    We believe the contract is very clear on the  
15       responsibility for delivering the modules at specific  
16       times at a specific cost, and they have not done that.

17    **Q**    With an appropriate level of quality that meets  
18       regulatory requirements for inclusion in a nuclear  
19       plant.

20    **A**    Well, that goes without saying, because we would not  
21       accept the parts on site for inclusion in the project  
22       unless they passed the quality test before we accept  
23       delivery of the submodules.

24    **Q**    Right, and nor would the NRC allow you to.

25    **A**    The NRC would find us in violation of the license, if we

1        did that?

2     **Q**    Yes. So when will you decide whether or not the  
3        resolution of this dispute about \$538 million  
4        necessitates you invoking one of these more formal  
5        dispute resolution mechanisms: arbitration or mediation?

6     **A**    I can't give the Commission a specific date on that  
7        today. The discussions are ongoing. What I can tell  
8        the Commission is, in the past, we've been able to find  
9        resolutions to our disagreements to this point. So  
10       we're certainly going to exhaust every opportunity to  
11       find a resolution that we think is good for the company  
12       and good for the customers over the long term, and we  
13       will push on that effort until we decide it's no longer  
14       fruitful. Then we'll decide what our options are at  
15       that point, whether it's some sort of dispute resolution  
16       or a move to a legal avenue.

17    **Q**    Okay. Page 41 of your testimony, line 15, I quote, "If  
18        litigation is required, the court proceedings in a  
19        matter this complex could last five years or more. The  
20        final resolution might come well after the project was  
21        completed." That's your testimony?

22    **A**    I believe that's what it says, yes.

23    **Q**    Well, Mr. Marsh, if it could take five years or more,  
24        why didn't you start last year? Or today? Why wait  
25        longer to initiate a process that you say might take

1        five years?

2     **A**     I'm not convinced today that the legal route would  
3        produce a result that would be in the best interests of  
4        our customers. You know, going through a legal  
5        proceeding does not guarantee a result. There's  
6        certainly risk associated with those proceedings. My  
7        experience has been for something this complex and this  
8        large, it could take a considerable amount of time. And  
9        before we embark on that process, I want to make sure  
10       we've exhausted all other avenues to us.

11           I'm very concerned, if we were to file a lawsuit  
12       immediately, that it would have an impact on our ability  
13       to work closely with our consortium partners on  
14       completing this project. My number one priority is to  
15       complete these projects safely, on time, so they can  
16       deliver the benefits they are expected to deliver to  
17       customers over the next 60 years. Just to jump into a  
18       lawsuit today and say, "Well, I need to start now so I  
19       can finish up, you know, by 2020," I don't think that  
20       would be prudent at this point, based on my knowledge of  
21       the disagreements and where we are in discussions with  
22       the consortium. I believe they have a vested interest  
23       in looking for a solution to this process without having  
24       to go through litigation.

25     **Q**     Well, you're aware, aren't you, that Georgia Power



1        Company has been, for some time, in litigation with a  
2        consortium about very similar claims with regard to  
3        noncompliance by the consortium and their obligations  
4        under their EPC?

5     **A**    You know, first, their contract is very different from  
6        ours. It's a sealed contract, so I've not had the  
7        ability to go through it. My understanding, and I  
8        believe they've talked publicly, is that primarily their  
9        contract is fixed. So the disagreements they might have  
10       in their contract over the same issues in our contract  
11       would be evaluated very differently, I believe, from the  
12       potential of litigation. I know they have a large  
13       number of legal personnel working on those projects,  
14       trying to resolve issues. They have not been resolved  
15       yet. I think it'll be many years as they continue down  
16       the same road before they get resolved. And we're  
17       trying not to put ourselves in that position.

18           Our contract is not fully fixed, which I said  
19        earlier we didn't do to preserve ourselves the right to  
20        try to protect the lower cost of the project. Their  
21        project is significantly higher, and I believe part of  
22        that reason is because it was fixed from day one, which  
23        we elected not to do, on the total contract. So I can't  
24        really compare their decision to move down a legal  
25        avenue on an issue – while the issue may be the same in

1        terms of the construction project, probably a very  
2        different evaluation from a legal perspective. I'll  
3        trust them to make the decisions that are right for  
4        their project.

5     **Q**     But you haven't reviewed their EPC contract, which is  
6        confidential, so you're really speculating about what  
7        the content of that agreement is.

8     **A**     I believe that's what I said. I have not reviewed the  
9        contract. I can only rely on what I've heard their  
10       personnel say publicly and what the general  
11       understanding is in the marketplace.

12    **Q**     So you say that Westinghouse owes you, or the consortium  
13        owes you, or your stockholders, \$538 million. Are you  
14        aware that Georgia Power's claims in their initial  
15        complaint against the consortium were for \$928 million  
16        for damages due to noncompliance?

17    **A**     That number sounds correct, but, again, I don't think  
18        you're looking at apples-to-apples. I believe some of  
19        the costs that are in their initial claim, we resolved  
20        early on in our project, so we didn't have to go to  
21        litigation. We brought the results of that settlement  
22        to this Commission, I believe it was in 2012.

23    **Q**     So Georgia Power has chosen a different route. They've  
24        been in court for some time. They're asking for, you  
25        know, close to twice as much from the consortium as you

1        say you're going to try to get from them. You've not  
2        tried anything other than talking to them. No  
3        negotiation – no arbitration, no litigation. And you  
4        say you're not litigating or using the other means  
5        because you don't want to interfere with your working  
6        relationship. Well, what harm has the litigation done  
7        that's discernible to the efficacy of construction at  
8        the Vogtle site? They're following the same pattern you  
9        are.

10    **A**    I can't speak for the impact it's had on them. I'm just  
11        telling you, from my business experience, with a project  
12        this large, if you become embroiled in significant  
13        litigation before the project is completed – and  
14        sometimes you have to do that, but at this point we  
15        don't believe we're at that point – I believe it will  
16        have an impact on our working relationship, the  
17        conversations we have on a day-to-day basis at the plant  
18        site about work that needs to be done, to the point that  
19        it could – not saying it will, but it could –  
20        potentially damage the relationship that would put our  
21        ability to complete these projects on time at great  
22        risk.

23    **Q**    What adverse impact has choosing the litigation route  
24        had on the progress in completing the Vogtle units?

25    **A**    I can't speak to where they are with the litigation and

1            the direct impact it's had on their project.

2     **Q**     Can you identify any material difference in the progress  
3            towards completion of the Vogtle units as compared to  
4            the Summer units?

5     **A**     They have not provided me with an analysis or a  
6            discussion around that. I can only assume it has made  
7            their discussions with field personnel different than I  
8            believe they would be if you were not in litigation.

9     **Q**     We're just nicer around here, in South Carolina, than  
10           those Georgia boys are. I mean, really, is there any  
11           material impact of them having asserted their rights for  
12           their ratepayers in court, in Georgia, as compared to  
13           the route that you've taken of being nice and just  
14           talking about it?

15    **A**     Well, being nice is not the term I would use in the  
16           negotiating room we've had with the consortium. Despite  
17           our calm demeanor in South Carolina, we've been pretty  
18           firm when we needed to be. You know, we've had some  
19           very frank discussions with the consortium, and I  
20           believe that is the most appropriate way for us to do it  
21           at this point. I think it's great that we've gotten  
22           this far along in the project and we don't have  
23           significant litigation. As I told you earlier, I'm  
24           giving you my experience as a businessman in South  
25           Carolina for almost 38 years now that, when you get

1        embroiled in litigation, it changes your relationship.  
2        I mean, it just does. I mean, you can go to a divorce  
3        and I'd hasten to say your relationship with someone  
4        you're going through a divorce on is probably not the  
5        same while you're going through that divorce as it was  
6        before you filed the divorce papers. I just think it's  
7        human nature, given the challenges you would have in  
8        discussions of that nature.

9        **Q**    And you think that if this Commission approves, as  
10       you've requested, this \$538 million as an increment of  
11       the total \$698 million in additional costs to complete,  
12       you think that will enhance your bargaining position  
13       with the consortium; you'll be able to come out swinging  
14       harder in getting them to come to the table to write you  
15       that check. Is that your position?

16       **A**    We're going to swing hard under all conditions. I mean,  
17       just because the Commission would approve these  
18       additional costs to be added to the capital costs of  
19       this project is not going to change our position at all.  
20       We're going to work extremely hard to recover these  
21       costs, to keep these costs to a minimum as we resolve  
22       these issues with the consortium. We're not going to  
23       take a decision by this Commission as something we've  
24       got in the back pocket so we don't have to negotiate  
25       very hard. We've made those very statements to the

1       consortium; I told them I was disappointed that we did  
2       not have some resolution prior to having to come to this  
3       Commission, but I was obligated to keep my Commission  
4       informed and we were going ahead with the discussion  
5       we'd made with the filing with the Commission to update  
6       these schedules. I made it very clear to the  
7       consortium; we've got language in our testimony before  
8       this Commission to commit to this Commission that we'll  
9       not change our negotiating efforts and the zeal with  
10       which we will look to look out for our company and our  
11       customers.

12    **Q**    So you told us – or the Commission, or the public – last  
13       fall, that you would resolve these issues with the  
14       consortium, the schedule and the cost issues, and then  
15       you'd come to the Commission once you had known-and-  
16       measurable evidentiary basis for final costs and a final  
17       schedule, then you'd come to the Commission. But you  
18       don't have that yet, do you? You don't have the costs,  
19       because you've got \$538 million up for grabs, in  
20       dispute. And yet, you're still here asking the  
21       Commission to give you a prudency judgment that that  
22       \$538 million is freely chargeable to ratepayers. That's  
23       your position now?

24    **A**    I don't agree with the way you stated that. I believe  
25       we've done exactly what we told the Commission we were

1        going to do. We were starting the discussions last  
2        fall. I was optimistic at that point that we would have  
3        a reasonable chance of resolving the responsibility  
4        decision over who would be accountable for the costs.  
5        But the numbers we have put in front of the Commission,  
6        they are known, they are measurable. We've been through  
7        the evaluation of the dollars that were included in the  
8        fully integrated schedule that was given us. The costs  
9        associated with that have been reviewed in detail by our  
10       expert team on site. They've been reviewed by the  
11       Office of Regulatory Staff. And we concluded that these  
12       costs are prudent, in our opinion.

13                You know, just because we haven't assigned  
14       responsibility for the costs doesn't mean you can't  
15       determine what the costs to finish the plant would be,  
16       at this point, and that's what we presented to the  
17       Commission. And I think our testimony spells that out  
18       very carefully. We've only included in this capital  
19       cost schedule what we are required to pay under the  
20       contract. The risk we've got is, if we don't pay the 90  
21       percent that was in dispute, we could find ourselves in  
22       breach of the contract. And if that happens, the  
23       contractor could slow down work or potentially walk off  
24       the job, and we'll never have the opportunity to finish  
25       these plants on time.

1            So the numbers are known. They've been gone  
2            through with experts internally and externally, and are  
3            considered to be prudent. The only remaining question  
4            at this point is who will be responsible for paying the  
5            costs. The way the Base Load Review Act is employed by  
6            the Commission, only actual costs incurred will be  
7            billed to customers through revised rates, the carrying  
8            costs on that. None of these costs will be billed to  
9            consumers until plants come on-line and go into  
10           commercial operation. They won't pay a single dollar  
11           for the cost of the plants until the plants come on-  
12           line.

13    **Q**    No, they'll pay the financing costs for whatever you ask  
14           the Commission and they, in turn, deem prudent as part  
15           of the capital costs of the plant.

16    **A**    They will only pay the financing costs if the actual  
17           costs are incurred. They could approve this schedule  
18           today as part of this proceeding, and we could resolve  
19           the issue – if life would be so nice – in the next  
20           couple of weeks, and we could find out – if you take the  
21           extreme example – where we wouldn't have to pay any of  
22           the additional costs. What caused those costs would not  
23           be incurred; they would never be charged to customers.  
24           No financing costs, nor the actual costs. That's the  
25           way the Base Load Review Act functions.



1     **Q**     Well, I see it differently, Mr. Marsh. I'd say there  
2           are two other alternatives. One is you could wait those  
3           couple of weeks, hold this Application in abeyance.  
4           Wait those couple of weeks. Once you've worked out  
5           either zero dollars, because you've persuaded – with all  
6           that good South Carolina sweet talk – persuaded the  
7           consortium to bear the \$538 million, then you come in  
8           here and it's a much smaller pie we're talking about.  
9           Or, or, you could ask your stockholders to pay the \$538  
10          million, or the 90 percent, carry the load that they are  
11          responsible for because you made these management  
12          decisions, and complete the plant just as you described.  
13          Pay the 90 percent, keep the consortium happy, but write  
14          the check out of your stockholders' pocket instead of  
15          the ratepayers'. You could do that, couldn't you?

16     **A**     I think that option would be the most imprudent step we  
17           could take with respect to completing this project on  
18           time. I gave the extreme example of if we could  
19           complete negotiations in a couple of weeks. We're not  
20           going to complete negotiations in a couple of weeks. I  
21           don't know the exact timeframe, but it's not going to be  
22           in the next couple of weeks.

23           If we don't include these capital costs in the  
24           schedule – because they are known, we've estimated those  
25           to be reasonable and in accordance with the work that

1        needs to be done – the financial community will be very  
2        concerned about our ability to recover the costs we  
3        spend on this project. The shareholders – the  
4        shareholders you talk about having to eat this cost  
5        until we come back to the Commission, we have to raise  
6        capital. We don't have those shareholders today. We'd  
7        have to sell new stock, eventually, to pay for the cost  
8        of this plant, along with bond sales we have to make up  
9        about 50-50. So if this Commission were not to allow  
10       these capital costs to go forward as approved, subject  
11       to the actual costs to be paid over the long term, I  
12       think we're going to have a very difficult time, if not  
13       an impossible time finding the shareholders you talk  
14       about to step up to the plate and make an investment,  
15       because they're not concerned about just receiving a  
16       return on their investment; they ultimately want to  
17       receive a return of their investment when these plants  
18       come on-line and depreciation starts. So I think that  
19       would be the worst alternative that could be imagined  
20       for this project, and put our ability to finish these  
21       plants on time in tremendous jeopardy.

22    **Q**    All right. But the standard the Commission is going to  
23       weigh is not whether or not Wall Street or your  
24       stockholders are put in a bind by these cost overruns;  
25       they're the standard of whether these additional capital

1            costs that you propose to incur are imprudent. That's  
2            the standard under the Base Load Review Act, isn't it?

3     **A**     There has been no evidence provided in this case to  
4            support the fact or the contention that these costs  
5            could be imprudent. We –

6     **Q**     That's not my question. Sorry for interrupting, but my  
7            question really is, the standard is imprudence – that's  
8            what you've testified to – under the Base Load Review  
9            Act. That's the standard, isn't it?

10    **A**     My understanding of the Base Load Review Act is, once  
11            the initial capital cost schedule has been provided,  
12            which we did in 2008, the company would be authorized to  
13            return to the Commission to make updates to that  
14            schedule, which we have done on a couple of occasions,  
15            and based on the evidence presented in those hearings  
16            and the information provided by the company, those  
17            amounts are deemed to be prudent unless there's evidence  
18            provided about their imprudence.

19            I know of no evidence in this case where someone  
20            has challenged the costs and said they're imprudent.  
21            This schedule has been reviewed by our team, it's been  
22            reviewed by ORS, and the Office of Regulatory Staff  
23            concluded that these costs were prudent and the  
24            company's filing was appropriate.

25    **Q**     We look forward to you listening to the rest of the case

1        that's being presented here, on that score, Mr. Marsh,  
2        but the standard of prudence is what this Commission is  
3        going to have to weigh. Are you aware of the position  
4        that your company has taken on, with regard what the  
5        definition of "prudence" is that should be employed by  
6        this Commission?

7        **A**     I've talked to the Commission on numerous occasions  
8        about my definition of "prudence." I don't know if our  
9        company has written one. You may have one you want to  
10       present to me, but I –

11       **Q**     I want to share with you the final brief of Respondent  
12       South Carolina Electric & Gas Company, in the appeal of  
13       South Carolina Energy Users Commission<sub>[sic]</sub> at the State  
14       Supreme Court. And it's a document that I think you'll  
15       recognize, signed by Mr. Chad Burgess, January 21, 2014.  
16       I'm going to direct your attention to page 22 of that  
17       document [indicating].

18       **A**     [Indicating.]

19                        **MR. BURGESS:** [Indicating.]

20       **BY MR. GUILD:**

21       **Q**     And I'll ask you, if you would, please, Mr. Marsh – I  
22       made an asterisk by a line with some quotation marks  
23       that begin with the word, "'Prudence' is universally  
24       understood..." Would you read that quote, please?

25       **A**     Yes. It says, "'Prudence' is universally understood

1        under a prudence test, a standard by which management  
2        action is to be judged, as that of reasonableness under  
3        the circumstances, given what was known or should have  
4        been known at the time the decision was made or action  
5        was taken."

6        **Q**     It cites a case, Georgia –

7        **A**     It cites the case of Georgia Power Company versus  
8        Georgia Public Service Commission.

9        **Q**     You don't need to read the citation, but, thank you.  
10       And you'd acknowledge that that is the position that the  
11       company took in that filing with the Supreme Court  
12       [indicating]?

13       **A**     You know, I'm not a lawyer. I will certainly  
14       acknowledge that's what it says, but I think to get the  
15       feel for the whole decision that was reached by the  
16       Supreme Court, you'd have to read that whole document.  
17       I just read a –

18       **Q**     And I want to –

19       **A**     – piece of it.

20       **Q**     – show you the whole decision. This is the Georgia  
21       Power decision that your lawyer cited as the appropriate  
22       prudence standard. I'll put that before you  
23       [indicating].

24       **A**     [Indicating.]

25       **Q**     And the language that you just read is the underlying

1        language, but would you read the rest of that text that  
2        follows after the underlined language, about the  
3        definition of prudence, that your lawyers argued,  
4        please?

5     **A**     [Indicating.]

6                    **MR. BURGESS:** [Indicating.]

7                    **WITNESS:** Did you say you want me to read the  
8                    underlined part, or you want me to start reading  
9                    after that?

10    **BY MR. GUILD:**

11    **Q**     Start reading after it, please, Mr. Marsh.

12    **A**     "The concept of prudence implies a standard or duty of  
13            care owed to others. In building a nuclear power plant,  
14            the Nuclear Regulatory Commission requires the utility  
15            to exercise a high standard of care in order to protect  
16            the public health and safety. Similarly, given the  
17            costs involved and the rate impact of those costs on  
18            monopoly customers, this Commission finds that the  
19            utility should be held to a high standard of care in  
20            making decisions and taking actions in its planning and  
21            constructing such a project. Thus, while the standard  
22            to be applied is reasonableness under the circumstances,  
23            where the risk of harm to the public and ratepayer is  
24            greater, the standard of care expected from the  
25            reasonable person is higher. Given this standard, a

1        reasonable person is one who is qualified by education,  
2        training, and experience to make the decision or take  
3        the action, using information available and applying  
4        logical reasoning processes."

5        **Q**     All right. Thank you. Mr. Marsh, I take it that you  
6        would accept that language, description, by the Georgia  
7        Court, aptly captures what you believe to be your  
8        competence in making judgments about the terms on which  
9        this nuclear project is going forward?

10       **A**     It sounds like a reasonable explanation of the  
11       activities we've undertaken to identify these additional  
12       costs and evaluate those costs prior to presenting them  
13       to the Commission as an amendment to the capital cost  
14       schedule.

15                **MR. GUILD:** Thank you, Mr. Marsh. That's all  
16       I have.

17                **CHAIRMAN HALL:** All right. Commissioners,  
18       questions for Mr. Marsh? Commissioner Randall.

19                **COMMISSIONER RANDALL:** Thank you, Madam Chair.

20                                **EXAMINATION**

21       **BY COMMISSIONER RANDALL:**

22       **Q**     I've just got one question. We've had several, sort of,  
23       thoughts and reactions to the proposed reduction on the  
24       return on common equity from 11 to 10½ in the settlement  
25       agreement. Have you had any reaction from the financial

1        community regarding this reduction, and how do you see  
2        that the financial community actually views this  
3        proposed reduction?

4     **A**     I don't think they've reviewed the 10½ by itself. I  
5        think they've taken that as part of the comprehensive  
6        settlement agreement that was reached with the ORS and  
7        Energy Users. I believe, in my experience, they believe  
8        it was a good decision on the company to try to settle  
9        these issues because it limits or could mitigate  
10       potential, you know, appeal of the decision by the  
11       Commission. It certainly shows that one of our  
12       significant intervenors, that's been involved in all of  
13       our cases since we started in 2008, has come to an  
14       agreement with the company on what we believe is a  
15       reasonable and fair decision on the issues that were  
16       involved in this case. I think they've reacted  
17       positively. It would certainly be a sign to the  
18       financial community that the Commission – if the  
19       Commission were to adopt the settlement – that it has  
20       continued its fair and reasonable approach of applying  
21       the Base Load Review Act, upon which we depend heavily  
22       for our future financing.

23                    **COMMISSIONER RANDALL:** Thank you.

24                    Thank you, Madam Chair.

25                    **CHAIRMAN HALL:** All right. Thank you.



Commissioner Elam.

**EXAMINATION**

**BY COMMISSIONER ELAM:**

**Q**     Good afternoon, Mr. Marsh.

**A**     Good afternoon.

**Q**     The reduction – let's see if I can clear up something  
that I heard earlier. The reduction in the ROE from 11  
to 10.5 –

**A**     Right.

**Q**     – represented, according to ORS, a \$15 million savings,  
over what time period? Is it the construction schedule,  
or is it the entire anticipated life of the plant?

**A**     No, it would just be during the construction schedule.  
While these plants are under construction, under the  
Base Load Review Act, they would have applied the rate  
of return that's been agreed to. So the 10½ percent  
would apply until Unit 2 and Unit 3 come on-line. So at  
the time those units come on-line, you will transition  
to the then-effective ROE for the core business, and  
that would be the ROE that would be there into the  
future.

**Q**     Okay. You've been asked some questions about some  
comparisons to Georgia Power. Do you know, off the top  
of your head, a comparison of the number of electric  
retail customers SCE&G has, as opposed to how many

1            Georgia Power has?

2     **A**     I don't know that number, specifically. I can confirm  
3            that it's a lot more than we have in South Carolina.

4     **Q**     Is it on an order of double, or triple?

5     **A**     I'm confident it's at least double. It may be three  
6            times, just for Georgia Power.

7     **Q**     Okay. And as to Georgia Power versus SCE&G, just the  
8            total megawatts of generation, the difference between  
9            the two companies, do you know that?

10    **A**     I don't know the specific amount that's owned directly  
11            by Georgia Power Company. They are part of a holding  
12            company known as the Southern Company, and there may be  
13            generation that is co-owned and some of those megawatts  
14            are allocated between companies. I just don't know  
15            that, specifically, but I would expect their generation  
16            megawatts that either they own or have been assigned to  
17            them from the corporate entity would be of a magnitude  
18            consistent with the number of customers.

19    **Q**     Okay. Following up on your discussion with Mr. Guild  
20            about negotiations with the consortium, when did those  
21            start?

22    **A**     We started, I believe it was last September. We  
23            received the updated schedule from them in August, and  
24            that followed shortly thereafter with the costs  
25            associated with that schedule.

1     **Q**     Okay.

2     **A**     So when they decided to make an effort to bill that  
3           additional cost to us, we started challenging them on  
4           the costs. That's not to say there weren't some  
5           preliminary discussions, because we expected it to be  
6           coming. But we certainly didn't get into direct  
7           negotiation of that, probably until September of 2014.

8     **Q**     Okay. At September 2014, were you in agreement with the  
9           consortium about what the dollar figure value of that  
10          was, or was that later?

11    **A**     I don't know exactly when the dollar amounts were  
12          presented to them in the various discussions. I don't  
13          think that occurred at one particular time. As I told  
14          Mr. Guild, as we got into the schedule and had a chance  
15          to evaluate the numbers and, you know, go through and  
16          identify what we specifically thought was not  
17          appropriate – I mean, this is a schedule that's  
18          thousands of lines long and has thousands of pages of  
19          detail behind it. So we didn't get the schedule on a  
20          Monday and we were through with it on a Wednesday. It  
21          took us weeks and probably several months to get all the  
22          way through the detail on that schedule, because we  
23          wanted to determine first if we thought it was  
24          achievable, and then we looked behind the hours and the  
25          costs behind that to determine what we thought was

appropriate and not consistent with the EPC contract.

**Q**    Okay. Thousands of lines. Without getting into a dollar figure, has there been any agreement about any of those sub-lines, as far as whose responsibility something or the other is, and you're just trying to get through to the end? Or is there no agreement on anything to this point?

**A**    No, there were some dollars in there that we did agree that were appropriate, and I believe Mr. Jones is going to present some change orders in connection with that. We identified a couple of other costs that we believe are appropriate in the revised schedule they gave us. The ones we pointed out in the filing here and we've indicated we're only going to pay 90 percent of are the ones we dispute under the contract.

**Q**    Can you give the Commission a rough idea of when you would expect some finality to that process?

**A**    I wish I could give you a specific date. The consortium is not in agreement with our position, so we continue to negotiate it extremely hard. We've had a number of discussions. There are some areas I believe we're starting to find some common ground. I wish I could give you more detail, but those are confidential discussions and, you know, we certainly haven't signed anything that would say we think we're on the right path

1            on these three and upset on those five. We're still  
2            continuing to work through that process very hard.

3    **Q**     So no idea whether it would be this year or not?

4    **A**     I would like to think we could complete it this year.  
5            That would certainly be a goal of mine. I believe the  
6            consortium would certainly like to resolve it by the end  
7            of the year. But I can't commit to an exact date.  
8            That's certainly a reasonable target, though.

9    **Q**     Okay. Tell me what the procedure will be if, in fact,  
10           you convince the consortium to take responsibility for  
11           half of it, as –

12   **A**     Right.

13   **Q**     – an example, and these have already been approved as  
14           capital costs. Will there be some mechanism for  
15           anything that perhaps ratepayers have paid, to that  
16           point, to be credited?

17   **A**     Well, assume we pay the 90 percent – I'm just going to  
18           give an extreme example. Let's assume we paid all of  
19           the 90 percent, and we reach a resolution where we  
20           recover all of the 90 percent. Certainly, we would  
21           immediately credit that back to the cost of the project,  
22           and in the next revised rate filing, that would be  
23           reflected in the customers' rates because they're paying  
24           for the carrying costs on that amount.

25   **Q**     How will that come back? Just in the cost of the

1        project, or – there's no other rate mechanism as far as  
2        any change in the capital costs?

3        **A**    Well, if we were to recover monies from the consortium  
4        that we had paid, we would immediately credit those  
5        dollars to the project. So the capital costs we've  
6        eventually paid for the project would go down  
7        immediately. Those actual dollars paid are what we use  
8        to file our revised rates adjustment on an annual basis,  
9        so your next revised rate adjustment would be on a lower  
10       capital cost, which would give you the credit on that  
11       carrying cost for customers in bills going forward.

12       **Q**    Okay. On page 11 of your prefiled testimony, you talk  
13       about the increase in the forecasted benefit of  
14       production tax credits, due to a smaller number of  
15       competing utilities. Do you have any concerns about  
16       having both units meet the required placed-in-service  
17       date of prior to January 1, 2021? And, I guess, the  
18       first unit.

19       **A**    Yeah. Well, the first unit – the first new unit, Unit  
20       2, I don't believe is under as much risk as the second  
21       unit, because if it's completed on time in 2019 it will  
22       be well within the limits established by the Treasury  
23       for the production tax credits. Certainly, unit two is  
24       close to the deadline, which is why we're so concerned  
25       about keeping progress moving forward on these units and

1        not doing anything to delay that progress. That's  
2        really why the 90 percent mechanism was put into the  
3        contract, so if we found ourselves in a situation where  
4        there was a dispute, that work could continue while we  
5        made the effort to resolve the dispute.

6        **Q**    Is the substantial completion date usually the same as  
7        the placed-in-service date?

8        **A**    There are probably a variety of opinions on that. We  
9        have assumed, for our purposes, it's the commercial  
10       operation dates. There are some out there that may be  
11       of the opinion – I've heard discussions that that could  
12       be when the fuel is actually loaded into the reactor and  
13       you're producing fuel – I mean, producing electricity.  
14       The credit is linked to the production of electricity,  
15       so that's a position that we certainly might make some  
16       valid effort down the road to evaluate that.

17       **Q**    In your testimony there on page 11, I guess starting at  
18       line four going to the end of line five, you talk about  
19       \$1.2 billion in interest costs, in future dollars.

20       We've been – throughout these proceedings, there's been  
21       a lot of discussion of money in terms of 2007 dollars.

22       **A**    Right.

23       **Q**    Why are you talking about future dollars now, here?

24       **A**    These are debt issuances that have already been sold to  
25       the public, and this is interest that will be paid in

1        the future, over the life of those bonds – in some  
2        cases, 30-year bonds, and in a couple of cases, 50-year  
3        bonds. So we've taken the actual amount of interest  
4        that would be paid over that period.

5        **Q**     So, does that necessarily make projections about  
6        interest – or, that's a fixed rate on the bonds?

7        **A**     Those are fixed rates on the bonds. All the bonds that  
8        have been issued at this point have been fixed-rate  
9        bonds.

10       **Q**     On page 46 of your prefiled, at line 16, you talk about  
11       SCE&G's role as owner of the project. Can you explain a  
12       little bit what "owner of the project" means? Does that  
13       have something to do with your relationship vis-a-vis  
14       Santee Cooper? Or what is special about "owner of the  
15       project"?

16       **A**     There's nothing special there, other than we are an  
17       owner of the project, with Santee Cooper, our partner.  
18       What I was trying to say was, as an owner, we're going  
19       to make sure we maintain all of our claims, to try to  
20       keep as much leverage on Westinghouse and CB&I as we  
21       can, to eliminate these costs that we believe are not  
22       appropriately charged to us.

23       **Q**     Okay. So Santee Cooper is not involved in negotiating  
24       with the contractors.

25       **A**     Oh, no, they're actively involved with us.



1     **Q**     Okay.

2     **A**     Lonnie Carter sits with me on many occasions, as well as  
3             other people on his construction team at the plant site.  
4             They are in every conversation with us; they're in every  
5             negotiation meeting with us. There's nothing we don't  
6             do, from a negotiating perspective, that's not discussed  
7             and agreed to with Santee.

8     **Q**     Okay. Maybe I phrased it a little badly.

9     **A**     All we're trying to say –

10    **Q**     They're not in separate negotiations with the  
11             consortium.

12    **A**     Oh, absolutely not.

13    **Q**     Okay. So whatever applies to SCE&G will apply to Santee  
14             Cooper, as well?

15    **A**     If we reach an agreement, I think it's comfortable to  
16             say that it will be an agreement that all the parties  
17             sign onto, SCE&G and SCANA – SCE&G and Santee Cooper.

18                    **COMMISSIONER ELAM:** Nothing further. Thank  
19             you.

20                    **CHAIRMAN HALL:** All right. Commissioner  
21             Hamilton.

22                    **COMMISSIONER HAMILTON:** Thank you, Madam  
23             Chair.

24     <

25     <

**EXAMINATION**

**BY COMMISSIONER HAMILTON:**

**Q**     How are you, Mr. Marsh?

**A**     Doing fine.

**Q**     Mr. Marsh, on page 29, line 13, of your prefiled direct testimony, you state that the company has approximately \$3.4 billion of debt and equity that remains to be raised.

**A**     That's correct.

**Q**     Okay. Could you tell us, or provide us with the approximate amounts and types of the instruments to be used, and the dates?

**A**     The timing of those issuances would be consistent with the additional construction expenditures as they occur. So we would look to raise debt or sell equity to finance the project to support the dollars that are being expended in any particular calendar year. It's not a perfect match, but you're not going to sell an odd number of bonds. You're going to sell 100 million or 300 million; you're not going to sell 123 million. It'll be an even amount.

          We look at the actual construction expenditures that we expect to spend in a particular year, and we divide that 50-50, because we think about 50 percent of that should be debt and 50 percent should be equity, in

1        order to maintain our bond ratings. Those are the  
2        amounts that we'd sell in those particular years, so it  
3        would follow the construction schedule.

4        **Q**    All right. Are you following, or does the company  
5        continue to utilize its original financing plan for the  
6        project?

7        **A**    We have. We made it clear, as we started out, that we  
8        didn't feel the need to take the government-guaranteed –  
9        the government-subsidized loan guarantees that were  
10       offered. We've been able to approach the marketplace on  
11       extremely favorable terms. We're in a very low-  
12       interest-rate environment, and that's evidenced by the  
13       \$1.2 billion we expect to save – that we will save on  
14       the issues we've issued to this point. I believe it's  
15       reasonable to expect that that number will grow,  
16       because, as we continue to issue debt, we've got debt –  
17       I think it's about \$1½ billion hedged today, which means  
18       we've locked in the interest rates for just slightly  
19       over 5 percent. Well, that's less than the 6.4 we  
20       estimated originally, so that'll produce additional  
21       savings that aren't included here, that will go directly  
22       to customers. The company does not keep those savings;  
23       that's passed on directly to customers. So we'll  
24       continue to do that and continue to use those  
25       instruments. I've been asked in the past, and I believe

1        the Commission has asked us in the past, if we were  
2        considering the federal loan guarantees.

3        **Q**     Yes, sir.

4        **A**     That's a program we have watched since its inception.  
5        We have tried to understand as much about that program  
6        as we can. The type of debt that's issued on that  
7        program is principally amortizing debt, which means, if  
8        you sold a bond issue today, you would pay back a  
9        portion – you would pay the interest and a portion of  
10       the principal back, over the life of that bond. That's  
11       very different from what we have in place where we issue  
12       a 30-year bond, and you don't have to pay any principal  
13       until the end of the 30 years. So if we were to go into  
14       the debt – the federal loan guarantees, we would be  
15       refinancing capital costs throughout the life of those  
16       bonds, which exposes us to great interest-rate risk. I  
17       can't predict the future, but I think it's more likely  
18       that interest rates are going to go up than they're  
19       going to go down, from where they are today. So we've  
20       been locking in these low rates and have not felt the  
21       need to do the loan guarantees. We also don't know the  
22       terms and conditions that come with those loan  
23       guarantees. We know there are always terms and  
24       conditions and covenants with any deal you would do like  
25       that, and we've not been provided those. If we are ever

1        provided those, we will certainly do the evaluation, but  
2        I think it would be a stretch for me, at this point, to  
3        say they would be favorable to what we've been able to  
4        secure in the marketplace at this point.

5                    **COMMISSIONER HAMILTON:** Thank you, very much,  
6        Mr. Marsh.

7                    Thank you, Madam Chair.

8                    **CHAIRMAN HALL:** All right. Commissioner  
9        Howard.

10                                    **EXAMINATION**

11 **BY COMMISSIONER HOWARD:**

12 **Q**     Good afternoon, Mr. Marsh.

13 **A**     Good afternoon.

14 **Q**     Mr. Marsh, one of the reasons, I guess I'll just say,  
15        I'm asking you the questions is because you're the first  
16        person up. That gives you the right to pass them on  
17        down, if you feel someone else is more qualified.

18 **A**     I've been on both sides of that test.

19                                    [Laughter]

20 **Q**     I just wanted to make sure. On page 26 – 27 and 28 of  
21        your testimony, you said the market is becoming  
22        extremely sensitive to SCE&G's regulatory risk in the  
23        nuclear context, and you raise the possibility of not  
24        being able to finance completion of the units. What  
25        plan, if any, do you have, if the financing becomes

1        unavailable?

2     **A**    We have in place lines of credit that we've extended,  
3        that apply to SCE&G, where, if we had a short-term  
4        period where credit were not available, we could call on  
5        those lines of credit, which I believe would transfer  
6        into long-term debt – subject to check, on that piece.  
7        So we have a backup plan with lines of credit if we had  
8        a point in the marketplace where we couldn't sell bonds.  
9        I think the biggest concern on my part would be if the  
10       Commission were not to support the project as it had in  
11       the past in allowing our adjustments, when they were  
12       deemed to be prudent, would send a message to the  
13       marketplace that there's a greater risk on the recovery  
14       of your investment if you make that in SCE&G. That  
15       doesn't mean we couldn't sell bonds. There's certainly  
16       a possibility you couldn't sell bonds. But they would  
17       be a higher interest rate. Just like we're going to  
18       benefit from higher interest rates over the next 30 and  
19       50 years on the debt issues we put out today, likewise,  
20       we would be penalized if we sold debt today at a rate  
21       that was higher than what we anticipated when we  
22       forecast the project for the Commission.

23                So the risk is not just that you couldn't finance,  
24        but that, if you could finance, it would be at  
25        significantly higher rates. That's where the BLRA has

1        been so important to us, because that's the mechanism  
2        that the financial community is relying upon to give  
3        them a reasonable level of comfort that they will be  
4        able to recover their financing costs.

5     **Q**     Well, do you plan on utilizing any equity financing?

6     **A**     We do have plans to do equity financing, as the need  
7        arises. Since about 50 percent of the construction  
8        would come from equity, you know, whatever remains to be  
9        spent, you could take half of that and we'd plan to, you  
10       know, put equity into this project or sell additional  
11       stock as necessary to raise the equity to support the  
12       project. So we will be doing both.

13    **Q**     What is your debt-equity ratio today, and what would it  
14        be if you had to undergo one of these plans? I know  
15        that it – the last part of that question is strictly  
16        speculative.

17    **A**     You know, basically, today, for the project itself, it's  
18        about 50-50, because that's our plan. It may not be  
19        exactly that, because you can't equal an – issue an  
20        exact amount. So from a project perspective, on a  
21        consolidated SCE&G, I think it's about 54 percent equity  
22        – 53 to 54. So that's just a little bit higher.

23            If we had a negative decision on the project, we  
24        may have to sell more equity to support the bond  
25        ratings, which would drive costs up on the project,

1        because the return-on-equity cost is generally higher  
2        than the interest rate you pay on bonds. So it's hard  
3        to say exactly what it would be. If we had an adverse  
4        decision from the Commission, I think we'd have to  
5        analyze that carefully and respond to the financial  
6        community. But their response would be negative; it's  
7        just a matter of how negative it would be in terms of  
8        our ability to raise the capital.

9        **Q**    The last two bond issues, if I'm not mistaken, both of  
10       them were for 50 years?

11       **A**    They were.

12       **Q**    One of them was oversold, and the last one was – I hate  
13       to use the word "undersold," but you didn't sell it in  
14       the first –

15       **A**    You know, we were many times oversubscribed on the bond  
16       issue for the first 50-year bond issue. I believe it  
17       was only the sixth 50-year bond that had been sold, and  
18       the lowest that had ever been done by a utility, so we  
19       set a record with that sale. The second 50-year sale  
20       was a little more difficult. We had to raise the  
21       interest rate just a little bit, in order to have enough  
22       investors come into the deal to make the sale. We still  
23       got a favorable rate. It was 5.1 percent, compared to  
24       what we originally estimated at 6.4.

25       But I think, in my professional opinion, the



1        concern in the marketplace, you know, had to do with  
2        this proceeding we're in today and the risks associated  
3        with changing your capital cost schedule and maintaining  
4        the support at the Commission. They watch those issues.  
5        They're closely watching this examination to understand,  
6        you know, where the Commission will land at the end of  
7        the day. As I mentioned earlier, I think the settlement  
8        agreement was a positive sign to the marketplace that  
9        the regulation is working well with respect to the Base  
10       Load Review Act, and the Commission will be making its  
11       decision accordingly.

12    **Q**    Why did you use a 50-year instead of a 30-year, which  
13        would probably have been more attractive to some  
14        investors, I would think? Why – how did you come up  
15        with the 50-year?

16    **A**    We don't like to have all of our issues mature at the  
17        same time. We also like to try to match up the lives of  
18        our assets with the lives of our bonds, trying to match  
19        that up as closely as possible. Since this project is a  
20        60-year-life project, once these plants come on-line, we  
21        believed it was appropriate to include a reasonable  
22        amount of 50-year bonds in the project. Otherwise,  
23        whoever's in charge of financing this company 30 years  
24        from now is going to wonder why Mr. Addison sold all  
25        those bonds that come due at one time –

1                                    [Laughter]

2                    – and they'll have to be there financing those, you  
3 know, back-to-back-to-back, without a new project being  
4 on board. We know that's the case now, because we're  
5 building the project. So we've done 30-years and 50-  
6 years; I wouldn't be surprised, before we're done, to do  
7 some 10-year bonds mixed in with those, so we can spread  
8 those maturity dates out and not have all that risk come  
9 due at once.

10    **Q**    The license is 40 years, plus a 20 renewable?

11    **A**    It's a 40-year license. Once you've been operating for  
12 20 years, and Mr. Byrne can confirm this, at that point  
13 you have the right to do the evaluation study to have an  
14 additional 20 years added to your license.

15    **Q**    I guess my first thought was, a 40-year bond because  
16 theoretically that's the life of the asset, as we know  
17 it now.

18    **A**    I've not seen any 40-year bonds in the marketplace.  
19 That would be an unusual term. Generally, the 30 has  
20 been the most popular – 10s, 20s, and 30s. The 50 is a  
21 new bond for the marketplace, but for the right type of  
22 asset and for the right companies and support, it's  
23 receiving some good attention.

24    **Q**    Since the – just talking about the Base Load Review Act,  
25 since the Base Load Review Act, how much has it

1        increased residential rates just for the nuclear plants?  
2        How much have residential rates increased from the  
3        beginning till today?

4                **CHAIRMAN HALL:** Mr. Marsh, will you pull your  
5        microphone closer, please?

6                **WITNESS:** Oh, I'm sorry [indicating]. I got  
7        comfortable because it was working.

8                        [Laughter]

9                I believe that number is around, I'm going to  
10       say, 17 to 20 percent. I don't have the exact  
11       calculation here in front of me. Based on what  
12       we've seen since we started the plants in 2008,  
13       adding up the increments that have been applied in  
14       those years, I believe it's between 17 and 20  
15       percent.

16       **BY COMMISSIONER HOWARD:**

17       **Q**     And what do you anticipate between now and the  
18       completion date, estimated?

19       **A**     From a total retail perspective, I believe that number  
20       goes to around 35 percent, in total, since you have  
21       another number on top of that between now and that time.

22       **Q**     Okay.

23       **A**     But I want to point out – I know we're focused a lot on  
24       rates, and we should be, but the amount that impacts  
25       customers is not just the rate increases; it's the

1        impact of fuel costs and the production tax credits.  
2        And our current forecast actually shows, when these  
3        plants come on-line, based on the costs we've got today,  
4        and you apply first the lower cost of nuclear fuel –  
5        because it is cheaper than the coal or natural gas – and  
6        when you combine that with the production tax credits,  
7        you're going to see a leveling of rates or a decrease in  
8        rates at that time.

9                So I understand your question, and I want to  
10        respond to that, but that's one piece of what customers  
11        see. That's just the base-rate side that's impacted by  
12        fuel and production tax credits. And that's the  
13        challenge that I think we've missed sometimes in these  
14        proceedings is, we're just focused on the capital costs  
15        – which is important. We need to focus on that. It's  
16        very important, because it's the largest cost of the  
17        impact to customers. But we can't discount fuel and  
18        production tax credits.

19    **Q**        I feel comfortable in asking you about one milestone,  
20        and I'm sure you know what the milestone is. It's 146.  
21        Are you familiar with an Milestone 146?

22    **A**        Well, it's got to be the last one, because there are 146  
23        of them. I don't know –

24                        [Laughter]

25    **Q**        I figured you would remember. My question's on

1            production tax credit.

2     **A**     Yes, sir.

3     **Q**     One forty-six says the completion date is June '19?  
4            June 2019?

5     **A**     Right.

6     **Q**     Production tax credit runs out in December of that year.

7     **A**     Well, to qualify for the credits you have to have your –  
8            you have to do three things. You have you file your  
9            license, which we did. You have to pour your basemat  
10           for the reactor, which we've done for both reactors, so  
11           we've met both of those two requirements. And the third  
12           is, your plant needs to be in operation by the beginning  
13           of 2021. So if we finish Unit 2, the first unit, in  
14           2019, it will clearly qualify for the credits. If we  
15           finish Unit 3 in June of 2020, it will qualify for the  
16           credits. And once you qualify for the credit, you're  
17           eligible to receive those for an eight-year period, once  
18           you become eligible to qualify for the credits.

19     **Q**     Well, my question is a confusing thing in my mind, and I  
20           hope you can clear me. We have a boundary of 18 months  
21           on each of the milestones.

22     **A**     That correct.

23     **Q**     That milestone, 18 months, would take it beyond 2021.  
24           It would take that – it would have – I don't want to say  
25           flexibility, but according to milestones, they would

1        have another year to do the project over there. So my  
2        question to you is, what is involved in changing that  
3        boundary to six months, so the boundary would be in line  
4        with the production tax credit deadline? Can you change  
5        the boundary? I don't know; I'm asking the question of  
6        somebody. It just seems like, if that boundary was the  
7        same as the production credit deadline, there would be  
8        more of an incentive to get the project finished within  
9        that boundary?

10     **A**    Right. Certainly, we want to achieve the deadline so we  
11        make the deadline of 2020. There does remain an  
12        opportunity, we believe, for us, if we find ourselves up  
13        against that deadline, potentially to go to Treasury or  
14        to go to Congress and have those deadlines extended.  
15        That certainly is not an absolute. It's something we  
16        have already begun to evaluate and try to define what a  
17        strategy might look like to accomplish that.

18                I would hate to spend the 12 years we've invested  
19        in completing these plants and miss a deadline by a very  
20        short period of time and not qualify for the credits.  
21        So it's something I can't guarantee, but we would make  
22        every effort to ensure we would qualify for the credits.

23                You know, the Commission certainly has the  
24        authority to move that deadline back, if it wants to.  
25        You know, we had originally asked for 30 months. That

1        was adjusted to 18 in the original hearing, and I think  
2        that's been reasonable. That's worked well for us. It  
3        has made us pay attention. I can assure you, without  
4        that deadline being moved back to 2020, it's got our  
5        full attention. So, certainly, the Commission could do  
6        that. I would think, as we approach that 2020 date, if  
7        we have issues, my commitment is we would be back before  
8        the – back and forth – back in front of the Commission  
9        to explain the exact situation and what our strategy has  
10       been to resolve it, so our customers do qualify for the  
11       credits.

12    **Q**    This is, for lack of a better word, I'll say a cliché.  
13        There's a cliché that's going around right now of, what  
14        keeps you awake at night? With all the moving parts of  
15        this nuclear power plant, which is one that would keep  
16        you awake the most at night?

17    **A**    You know, certainly, it's staying on the schedule. I  
18        don't have nearly as many concerns as I did when we  
19        started the project about being able to build the  
20        facility. As we told the Commission, this was a new  
21        plant, it was a new design. We knew they were under  
22        construction in China. As we have monitored their  
23        construction in China, we've become more and more  
24        comfortable with the constructibility of the plants, and  
25        physically their plants are almost complete. The first

1        unit is complete. I will anxiously watch as they load  
2        fuel and they heat the plant up and it produces  
3        electricity for the first time.

4                I think making sure we finish these plants on time  
5        is my biggest concern. I want to make sure we do what  
6        it takes to bring these plants in on time and capture  
7        the production tax credits for the benefit of our  
8        customers.

9        **Q**     Thank you, very much.

10       **A**     Yes, sir.

11                        **CHAIRMAN HALL:** Commissioner Whitfield.

12                        **VICE CHAIRMAN WHITFIELD:** Thank you, Madam  
13        Chairman.

14                                        **EXAMINATION**

15       **BY VICE CHAIRMAN WHITFIELD:**

16       **Q**     Good afternoon, Mr. Marsh.

17       **A**     Good afternoon.

18       **Q**     I've only got about four questions for you, and two of  
19       them you've already practically answered or at least  
20       touched on. The first one has to do – you kind of  
21       answered it in a response you gave to Commissioner  
22       Hamilton about the federal loan guarantees, and you  
23       explained that real, real well. I guess my only  
24       remaining question about that is – and, again, not to  
25       Monday-morning quarterback that. I know Georgia sought



1        them out for Vogtle years ago, and you did not. But I  
2        thought there was a – was there not a deadline as to  
3        what point you could still get those if you chose to?  
4        Or is that still an option? You've still got \$3.4  
5        billion worth of capital to raise. Is that something  
6        that –

7        **Q**    There have been deadlines along the way to stay in the  
8        pack that would qualify for the loan guarantees. You  
9        had to pay certain fees to go to the next level. We  
10       were paying these fees to the federal government to stay  
11       in the game.

12       **Q**    Or negotiate the fee, yes.

13       **A**    So we paid our fees to a certain point. I may need to  
14       verify this, but my understanding is we're no longer  
15       paying fees because they've not provided us the  
16       information we need to continue the evaluation. So, to  
17       put it in simple terms, the ball is in their court. If  
18       they want us to consider the loan guarantees and their  
19       options, they're going to have to provide us with the  
20       details we need to complete the evaluation. I'm not  
21       concerned if they never provide it to us, because I  
22       think our financing we've got in place is going to be  
23       extremely tough to beat, with the locked-in interest  
24       rates we've got, with none of the covenants and  
25       restrictions that come with that.

1            So I'm comfortable with what we've done, and I  
2            don't regret – even looking back today. And Georgia has  
3            done that. I'm comfortable they've got a lot of new  
4            requirements they're going to have to meet in connection  
5            with those loans, to satisfy the federal government,  
6            that we won't be subject to.

7     **Q**     I think y'all stated that years ago, that –

8     **A**     We did.

9     **Q**     – there were a lot of strings attached, if you will,  
10           with –

11    **A**     Yes.

12    **Q**     – those loan guarantees. And you've certainly explained  
13           it in your answer to Commissioner Hamilton as to why you  
14           haven't done it up to this point, and it looks like the  
15           possibility of you doing it is getting slimmer and  
16           slimmer by the day, I guess.

17    **A**     Where we sit now, we're not moving forward unless they  
18           provide us additional information to do the evaluations.

19    **Q**     Another question I had that you kind of touched on a  
20           little bit with Commissioner Elam: We were talking  
21           about any monies that might come back as a result of  
22           your ongoing negotiations with CB&I and, of course,  
23           Commissioner Elam I think used the example of what if –  
24           of course, presently, we are still operating under the  
25           old schedule and costs, but if this were approved and if

1        some costs had been put in place and then, somewhere  
2        down the road – and we hope for the ratepayers' sake  
3        that you do get all of this that you can. Actually, we  
4        hope that you get 100 percent of it, but if you were to  
5        get a quick resolution or a resolution down the road,  
6        and some of the costs were already in place, and I think  
7        you said here on the stand that you would return these  
8        funds through a revised rate proceeding. But somewhere  
9        in somebody's testimony, I thought I read the mention of  
10       it being under a fuel proceeding. And this may be a  
11       legal question, but the way I read the Base Load Review  
12       Act, it possibly could be allowable in a fuel  
13       proceeding. But we've got so much else packed into a  
14       fuel proceeding now, do you think it would be best to do  
15       it in a revised rate proceeding where you educate the  
16       public, if you will, and get good press, whatever you  
17       want to say, by showing that you have recouped these  
18       costs?

19     **A**    If you wanted to give the dollars back as quickly as  
20       possible and put it in consumers' hands, the reduction  
21       to fuel would probably be the quickest way to do that.  
22       Through the idea I put in front of you earlier, if we  
23       received a refund, it would be credited to the capital  
24       costs of the project. Consumers would continue to pay  
25       the carrying costs on that project, but that would be a

1        lower rate than an immediate refund through a fuel cost.  
2        That would typically be what's done, is to lower the  
3        capital costs, because it is a return of the capital  
4        costs. But I think the Commission would be within its  
5        bounds to evaluate the best way to handle that when it  
6        came back in, which is why I said we would be back in  
7        front of the Commission to make sure it was clear how it  
8        was to be treated.

9        **Q**    Well, that's certainly something that we would have to –  
10        and that would be a good problem to have, and we hope  
11        you have that problem.

12        **A**    I anticipate having that problem and being back before  
13        you, and certainly any options that would be available  
14        to us, the Office of Regulatory Staff would be able to  
15        fully vet for the Commission and also give you a  
16        recommendation.

17        **Q**    Another question – and it certainly looks like, you  
18        know, what Commissioner Howard asked you, what was your  
19        greatest worry at night. And certainly I see – I think  
20        we all do – that meeting these deadlines to still  
21        receive the federal production tax credits is a huge,  
22        huge goal, and it's going to be a delicate walk,  
23        obviously, to do this. But I think you said earlier on  
24        the stand, maybe when you were answering Mr. Guild's  
25        questions, you mentioned it would be about \$1 billion on

1            one, but if I'm doing the math right, it's going to be  
2            about \$2.1 or .2 billion for both units – that is, if  
3            Unit 3 makes the deadline, as well.

4     **A**     You talking about production tax credits?

5     **Q**     Yes, sir.

6     **A**     Yes, it's about \$2.2 billion in total.

7     **Q**     Yes, sir. And we're talking full-blown dollar for  
8            dollar. We're not talking about a deduction; we're  
9            talking about full-blown dollar-for-dollar federal tax  
10          production tax credits.

11    **A**     That 2.2 would be what I call the grossed-up amount;  
12          that's taking the actual amount of the credit and  
13          grossing it up so you could see what the customers would  
14          receive. They would receive the \$2.2 billion benefit.

15    **Q**     That's where I was headed.

16    **A**     Yes.

17    **Q**     Yes, sir. And, lastly, one of the things that ORS is  
18          charged with in representing the public interest, one of  
19          the three legs is the financial health of all of our  
20          utilities. And one question that I seem to understand  
21          that Wall Street has a concern about is possibly the  
22          financial health of our contractors – of CB&I or  
23          Westinghouse – and I have kind of, in my mind, said,  
24          "Well, when we started this project, they weren't called  
25          CB&I; they were Shaw Group." I've kind of mentally

1        thought these same people that -- the high-level  
2        engineers and people on the consortium's management team  
3        and top engineers are going to be with them whether it's  
4        Shaw, CB&I, whoever -- mergers and acquisitions happen.  
5        This is a changing world; we know that. But then -- and  
6        I'm asking you this because I know you've got an  
7        accounting background, but if you want to punt to Mr.  
8        Byrne, because I read in his testimony I think where he  
9        has some concern about being able to -- about the  
10       turnover in personnel at the consortium. And could you  
11       address that, or if you want to punt to him, I would  
12       certainly --

13    **A**    I'll let Mr. Byrne address it too, but, you know, we  
14       have been concerned about some of the turnover at the  
15       higher levels within the organization. We expected to  
16       see some turnover when it changed from Shaw to CB&I.  
17       That is not unusual. I will say, even though they've  
18       had turnover, they generally do a pretty good job of  
19       communicating with us and we get the right to interview  
20       people they've got coming in, to give them feedback on  
21       whether or not we think that person will fit with the  
22       team and meets the qualifications. In certain  
23       positions, we have an absolute right for that; in  
24       others, it's their right, but the relationship is such  
25       that they usually involve us at some point during that

1        process. It'd be nice if they had the consistency that  
2        we've had on the project. All our senior leadership  
3        team that was here in 2008 is still in place, and you  
4        should expect to see them all the way through the  
5        completion of these projects. We're working hard to  
6        find that level of commitment on the other side.

7                There are people, especially on the Westinghouse  
8        side, that have been there from day one, and those  
9        relationships have been good, even though there's been  
10       turnover in other positions.

11    **Q**        I guess, separate from that, from the turnover in  
12       personnel, how about the financial health of CB&I? Do  
13       you have any concerns there, or could you share any  
14       insight there?

15    **A**        We watch it carefully. We have a credit metrics team  
16       within our financial organization that evaluates their  
17       creditworthiness. We watch their activities on Wall  
18       Street, to understand what they're up to and if we have  
19       any concerns we need to put forth in front of them.

20                **VICE CHAIRMAN WHITFIELD:** Well, thank you, Mr.  
21       Marsh.

22                That's all I have, Madam Chairman.

23                **CHAIRMAN HALL:** All right. Thank you.  
24       Commissioner Fleming.

25                **COMMISSIONER FLEMING:** All right.

**EXAMINATION**

**BY COMMISSIONER FLEMING:**

**Q**     Good afternoon.

**A**     Good afternoon.

**Q**     I didn't expect you to be here this time of day, sitting where you are. I thought we'd be finished with you long ago. But I just wanted to touch on one particular area that you mentioned in your testimony and Mr. Guild brought out. But the EPA's Clean Power Plan –

**A**     Yes.

**Q**     – I know the final plan is not out yet, so we're all waiting anxiously to see what it has to say. But could you talk a little bit about the benefits of these nuclear units that can prove to be beneficial not only to the company but to the customers and to the State, as we look toward meeting the standards that they may potentially define?

**A**     I'll do my best to do that. The proposed rule that came out, I believe it was last summer, was very complicated, very detailed in terms of how they apply the application of the formulas in there that derive the targets the companies have to achieve. As we dug into the determination of the targets, what we learned was, in terms of the base-load capacity or generating capacity that was in place today, based on which they set the



1        targets, they had already assumed that the nuclear  
2        plants were in operation and running at a 90 percent  
3        capacity factor. So that has an impact on setting our  
4        target. In essence, that would put us in a position  
5        where we would not receive the full benefit that we will  
6        achieve when these plants come on-line and start to  
7        displace coal and certainly some of our gas-fired  
8        generation, which is, while it's a lower producer of  
9        carbon, it still does have carbon emissions.

10        We've already seen the benefit of bringing these  
11        new plants on-line because when I sat before you in  
12        2008, I think it might've been you that asked me the  
13        question, "Well, what impact will this have on some of  
14        your older coal-fired generation?" And what I told you  
15        at the time was these plants gave us flexibility to  
16        retire some of those older plants, should that situation  
17        arise. And because we had the turndown in the economy  
18        and we've seen load growth a little bit slower than we  
19        anticipated, we were able to retire or have plans to  
20        retire 730 megawatts of older coal-fired facilities that  
21        will have a tremendous impact on our future carbon  
22        production. It will reduce that significantly.

23        So these plants put us in a position where we can  
24        do other things that will help us to respond. The new  
25        Clean Power Plan as it's designed today really forces

1        you to take a look at finding additional efficiencies in  
2        the heat rate of your existing power plants, which may  
3        be hard to do because we've been working hard on  
4        improving those heat rates for years. It forces you to  
5        look more at natural-gas-fired generation. We're  
6        fortunate because we brought our Jasper Plant on-line  
7        back in 2004, and we've already got about 30 percent of  
8        natural gas. Many utilities don't have that, as they  
9        try to find that balanced portfolio. And they also  
10       encourage you to look for additional megawatts from  
11       renewables. And we've been very active with the  
12       Legislature and the environmentalists and others around  
13       the State, helping to find ways to define how we move  
14       forward successfully with solar power, so we don't find  
15       our State embroiled in all the awful discussions and  
16       some of the hateful things I've seen go on in other  
17       states as they try to figure out what does that solar  
18       plan look like. So, we've worked with the other  
19       utilities in the State and the environmentalists and  
20       people that are focused on solar power, to pass the  
21       Distributed Energy Resources Act last year, which has  
22       allowed us to come back to the Commission twice now –  
23       one to set net-metering rates and one to set distributed  
24       energy resource incentive plans in place to help us  
25       promote solar energy. So we're well on our way to

1            fulfilling that piece of the pie.

2            So we believe we need that nuclear to help us  
3            achieve those targets. It will not get us all the way  
4            there, and Mr. Guild pointed that out in his cross-  
5            examination of me. We've got more to do. But without  
6            the foundation of the nuclear plants, if we don't have  
7            this nuclear energy to serve as a foundation and to put  
8            us at a 62 percent non-emitting level of production on  
9            our system, I think it's going to be very difficult to  
10           accomplish.

11           You know, we told the EPA – I've been to the EPA  
12           twice and met with individuals there to talk about the  
13           way nuclear is being treated in the Clean Power Plan.  
14           The example I gave them was if I hired a group of  
15           employees and I was standing up in front of them and  
16           said, "Everybody here has to pay the Family Plan for  
17           health insurance," and when a young lady in the back  
18           stands up and says, "Well, I'm not married and I don't  
19           have any kids," I would say, "Well, you're thinking  
20           about it, so you have to pay for it." That's what the  
21           EPA has done in the Clean Power Plan. So we're trying  
22           to get fair treatment for the nuclear plants so they'll  
23           serve as the foundation. If we don't get that, it's  
24           going to be a very big challenge for us to meet the  
25           requirements of that plan.

1            But we don't know the final results yet, and once  
2            the final results are known, it does come back to the  
3            State and the State has to actually define its  
4            implementation plan. So even though it would come back  
5            to the State of South Carolina, they've got to decide  
6            between SCE&G and Duke Energy and Santee and all the  
7            others that have some sort of production, how they're  
8            going to allocate those targets. So there are a lot of  
9            unknowns, but what is known is, without the nuclear  
10           plants, we won't be able to achieve the 62 percent goal  
11           of non-emitting, clean, base-load – and that's key –  
12           base-load energy that's there all the time.

13    **Q**     And could that be – well, I guess, if they do let you do  
14           it once it comes on-line rather than counting it down,  
15           is that a financial benefit? Will that be a savings to  
16           the company and the customer?

17    **A**     It will. I don't have my notes in front of me that I  
18           took to the EPA, but the number I recall is, if we don't  
19           get the benefits of the nuclear plant, it could be an  
20           additional \$8-\$9 billion in costs for the consumers in  
21           South Carolina. That's not just SCE&G; that's the  
22           State of South Carolina, us and Santee and others, would  
23           have –

24    **Q**     Trying to – that would be –

25    **A**     Trying to meet the new requirements of the Clean Power

1            Plan, as it's drafted today. Now, we don't have the  
2            final rule, so I hope they fix some of the points we've  
3            made to them as they go forward.

4    **Q**      But that could be just the reversal, if they do – I  
5            mean, there could be a financial benefit, if – depending  
6            on how the plan is written?

7    **A**      I believe the financial benefit is there today in our  
8            making the investment in the nuclear plants.

9    **Q**      So they'll already be there.

10   **A**      Yes.

11   **Q**      And would there be – could there be the potential of a  
12            carbon tax that would add –

13   **A**      You know, President Obama has made it very clear that he  
14            believes carbon is a significant issue for our country  
15            going forward. Many others support that position. I'm  
16            not here to argue with the science. I firmly believe,  
17            you know, carbon emissions are going to be attacked in  
18            the future. I believe the writing is on the wall. You  
19            know, based on what we said in 2008 about the additional  
20            restrictions that would come out from an environmental  
21            perspective, that has all come true. And had we not  
22            been building these new nuclear plants, I'm not sure how  
23            we would've complied with those.

24            So we believe a carbon tax is going to be a reality  
25            at some point. There is a value that we believe can be

1        reasonably assigned to carbon for purposes of evaluating  
2        the impacts, and the nuclear power construction –  
3        continuing with these new plants and completing these  
4        plants is, in my mind, just critical to be able to  
5        address the challenges. To put the company in a  
6        position or make a decision that we were going to stop  
7        these plants and build something else at this point,  
8        that's a \$3 billion decision based on our analysis, for  
9        customers. I don't know that that even takes in the  
10       impacts of trying to solve the carbon issues.

11                So I believe the State is on the right path. Not  
12       just us, but with Santee Cooper and all the customers  
13       that are served throughout the State through the  
14       electric cooperatives that they serve, this plant is  
15       going to impact most customers in the State of South  
16       Carolina.

17    **Q**        So these units – it sounds like you're looking at these  
18       units kind of as an insurance against – or working  
19       towards meeting those standards?

20    **A**        Yes, that's exactly what we believed in 2008, and I  
21       believe that more firmly today than I did in 2008.

22    **Q**        And with this plant, with the complexity and scope of  
23       it, I'm sure there is great interest in the building of  
24       it not only in our State but across the country. And I  
25       was just wondering, are you doing any outreach or

1        educational sessions to various groups about the plant  
2        as it's under construction?

3     **A**    We have a lot of individuals involved directly in the  
4        project that do presentations on a regular basis around  
5        town and around the State. We certainly have extensive  
6        information on our website about the project, not just  
7        pictures but just discussion about what's going on, and  
8        there's a lot more informal efforts to help people  
9        understand the value of the plants and the impact they  
10       can have on the State. So we could probably do more of  
11       that. It's certainly something we believe in completely  
12       and probably couldn't do too much of that to make people  
13       aware of the benefits.

14    **Q**    Are you getting – what types of groups are particularly  
15        interested?

16    **A**    It could be anything from a Rotary club – we've worked  
17        with educational organizations; we've had groups of  
18        teachers on a regular basis up to the plant. We brought  
19        students to the plant, student groups, to help them  
20        understand the benefits of nuclear power and how it is  
21        used in the State of South Carolina. You know, any  
22        group that wants us to come and make a presentation,  
23        generally, we are available to do that.

24                We have groups within our organization where we  
25        bring in groups of customers on advisory boards in

1        different areas around the State and we talk to them  
2        about nuclear. We ask them, "What are you hearing from  
3        a nuclear perspective," if there are concerns we need to  
4        try to address in the State or with particular groups.  
5        We've run a number of television ads, at stockholder  
6        expense or shareholder expense – not paid for by  
7        customers – to help provide more information about  
8        nuclear power.

9                I would expect those activities to increase as we  
10        move forward. I probably lost count of the number of  
11        tours we've been through at the nuclear plant. We've  
12        had commissioners from different states come; we had  
13        Nuclear Regulatory Commissioners come all the time. We  
14        encourage people to come to the plant site. We are  
15        proud of it. I think it definitely leaves an impression  
16        on you, when you can go from the dollars on a page to  
17        physically looking at the investments that are being  
18        made and the complexity of the project and the activity  
19        that is taking place on site.

20    **Q**        Okay. So it's serving as an educational opportunity for  
21        others across the country?

22    **A**        I believe it is, and in the conversations I have with  
23        CEOs and in private, in different industry meetings I go  
24        to, they're pulling for us. They want our plant, they  
25        want the Vogtle plants to be built, because they want to



1        build plants. I hear comments about the lack of a  
2        nuclear renaissance, and there may not be enough plants  
3        being built in the United States to convince me there's  
4        a renaissance here yet, but there are 65 plants being  
5        built around the world, new nuclear plants, so the  
6        renaissance is occurring, and I think the United States  
7        could benefit from joining the party.

8                    **COMMISSIONER FLEMING:** Thank you.

9                    **CHAIRMAN HALL:** All right. Thank you.

10                    **EXAMINATION**

11 **BY CHAIRMAN HALL:**

12 **Q**     Mr. Marsh, I just have a couple of questions. The first  
13        is, why is the company requesting Commission approval of  
14        a revised schedule when the company hasn't agreed yet to  
15        the revised milestones? The new milestones aren't in  
16        the EPC contract or an addendum, so –

17 **A**     The schedule we have put before the Commission is a  
18        schedule we are working to, on site, now, to complete  
19        the units. So we have agreed this is the working  
20        schedule to complete the units, as we presented to the  
21        Commission. When we say we haven't agreed to the  
22        schedule, we're talking about agreeing in terms of who's  
23        going to pay for the costs that are under dispute.  
24        There is no dispute that this is the schedule upon which  
25        the plants are being built. The costs have been

1        evaluated, the costs are known, the derivation of the  
2        costs have been fully reviewed by our team on site and  
3        the Office of Regulatory Staff.

4        **Q**     Okay. Now, I want to go back to Mr. Guild's question  
5        about the litigation. And I don't want to jeopardize  
6        your position, so don't go far enough to do that, but as  
7        far as the negotiations are concerned, when would they  
8        tip where you would think that the negotiations were no  
9        longer productive and you might have to pursue  
10       litigation?

11       **A**     If the consortium were to basically quit listening to  
12       us, I'd say that's the time to do something else. We  
13       have not gotten to that point. We have had very frank  
14       discussions. We've had some exchanges of potential  
15       opportunities to settle some of the outstanding issues.  
16       We've just not reached any final agreements. As long as  
17       I believe there's an opportunity for us to do it through  
18       a settlement, as I said earlier, I would prefer that to  
19       litigation, if it looks like that's a reasonable number  
20       or reasonable amounts for our company and our customers.

21       **Q**     Okay. And if you had to file litigation – I understand  
22       Georgia filed theirs in New York – where does the  
23       contract dictate, or where does your contract dictate  
24       that it would be filed?

25       **A**     We would also file in New York.

1     **Q**     Okay. And I imagine that would be costly, as well. One  
2           more question about the difference between Georgia  
3           Power's contract and your all's contract, as far as the  
4           litigation is concerned. I think you – I can't  
5           remember. Their contract is sealed and so you don't  
6           know as much, but why was litigation a better option for  
7           them?

8     **A**     I don't know all the details in their contract, but the  
9           general understanding is, and their company officials  
10          have made comments to this effect, it is a fixed-price  
11          contract. Our contract is fixed for certain items; we  
12          have firm pricing with fixed escalation on others, and  
13          there's about a third of the project that is targeted,  
14          where it's to be determined on actual amounts spent.  
15          That's where our disagreement is, on the actual amounts  
16          spent in that targeted category. We don't have any  
17          disputes over the fixed or the firm with fixed  
18          escalation.

19     **Q**     Okay.

20     **A**     If their project is all fixed, even though they had the  
21          same issues we had, I can see how they would have a  
22          different position on, you know, whether they should be  
23          paying at that time.

24     **Q**     Okay.

25     **A**     And that might have led them to a decision to start

1            litigation earlier than later.

2                    **CHAIRMAN HALL:** Okay. All right. Thank you,  
3            so much.

4                    Commissioners, any other questions for Mr.  
5            Marsh?

6                    [No response]

7                    Okay. Mr. Burgess?

8                    **MR. BURGESS:** I have one question on redirect.

9                    **CHAIRMAN HALL:** Okay.

10                   **REDIRECT EXAMINATION**

11 **BY MR. BURGESS:**

12 **Q**     Mr. Marsh, before the lunch hour, Mr. Guild was  
13            questioning you about the future transaction between  
14            SCE&G and Santee Cooper, and I believe I heard you  
15            testify that SCE&G would be purchasing an interest in  
16            Unit 2. Would you please explain to the Commission  
17            exactly what transaction is required of the two  
18            companies?

19 **A**     Yes. I need to correct my statement on that. The  
20            triggering event for the purchase of the 5 percent would  
21            be the commercial operation date of Unit 2, but the  
22            actual 5 percent purchase would be of Units 2 and 3.

23                   **MR. BURGESS:** Okay. Thank you, Mr. Marsh. No  
24            further questions.

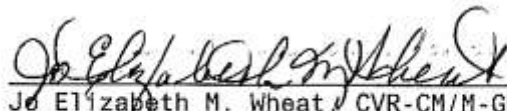
25                   **CHAIRMAN HALL:** All right, thank you.

C E R T I F I C A T E

I, Jo Elizabeth M. Wheat, CVR-CM-GNSC, Notary Public in and for the State of South Carolina, do hereby certify that the foregoing is, to the best of my skill and ability, a true and correct transcript of proceedings had and testimony adduced in a hearing held in the above-captioned matter before the PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA;

That the witnesses appearing during said hearing were sworn or affirmed by me to state the truth, the whole truth, and nothing but the truth;

IN WITNESS WHEREOF, I have hereunto set my hand and seal, on this the 31st day of July, 2015.

  
Jo Elizabeth M. Wheat, CVR-CM/M-GNSC  
Hearings Reporter, PSC/SC  
My Commission Expires: January 27, 2021.